

NEWS: EUROPE

SIR LEON SEEKS TO OVERCOME FRENCH-LED RESISTANCE

EU to push for greater ties with US

By Lionel Barber in Brussels

The European Commission will today try to overcome French-led resistance to a blueprint for strengthening political and economic ties with the US.

At a meeting of EU foreign ministers in Brussels, Sir Leon Brittan, EU trade commissioner, intends to revive his idea for a joint study with the US on the creation of a transatlantic free trade area.

But in a shift of tactics, Sir Leon is expected to focus on the less ambitious goal of reducing - rather than "eliminating" - tariff and non-tariff barriers in order to foster closer business ties between the US and Europe.

The Commission, supported by the Spanish presidency, Britain and Germany, had hoped to use the idea of a joint study on free trade to promote a new vision for transatlantic ties to coincide with President Bill Clinton's visit to Europe next month. France, supported by Belgium and other countries more reticent about free trade, blocked the move at an EU foreign ministers meeting in Luxembourg last month.

French officials complain that Sir Leon is being given too much rein in general to promote free trade between the EU and third countries.

Despite the disagreements on trade, the ministerial meeting today is expected to focus on a lengthy list of practical measures to intensify co-operation between the EU and US.

Areas include food aid distribution to stricken areas such as Rwanda and the Caucasus; exchange of information on illegal trafficking of drugs and chemical weapon agents; and joint market access for products from the Gaza Strip and Palestinian territory. But the EU's failure to agree the European convention is holding back progress in justice matters.

On trade, Sir Leon will stress the benefits to European business if the EU can persuade the US to modify specific legislation which favours US companies, such as Buy American provisions at federal and sub-federal level, and the Jones Act, which favours US-built ships unloading and loading at US ports.

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which involves leading business and politicians in the EU and US - are calling for a more ambitious approach ahead of President Clinton's attendance at an EU/US summit on December 3 in Madrid.

In a paper* to be released this week, TPN calls for the existing Nato treaty to be modified eventually to take account of new security threats, an expanded membership, and the possible emergence of a more coherent European defence pillar.

Talks on a second, new treaty covering political and economic relations would be launched by December 1999, after the planned launch of the single European currency and conclusion of the inter-governmental conference to review the Maastricht treaty which opens next year. The idea is to co-ordinate the Nato and EU enlargement more closely.

*Toward Transatlantic Partnership: the Partnership Project, TPN, 133 Rue Froissart, 1040 Brussels

Bruton again appeals for Yes vote on divorce

By John Murray Brown in Dublin

Mr John Bruton, the Irish prime minister, yesterday issued a strong personal appeal for a Yes vote in next Friday's referendum on legalising divorce amid signs support for the government's proposed amendment to the constitution is slipping.

Mr Bruton's personal intervention, in his first interview during the six-week campaign, marks a last-ditch effort to stave off defeat and follows a Supreme Court decision on Friday banning the use of public money to support a Yes vote.

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The government subsequently announced it was pulling its entire advertising campaign.

In the wake of recent polls, ministers have appeared increasingly rattled. Equality and law reform minister Mr Mervyn Taylor accused the anti-divorce campaign of a "farrago of lies". Mr Ruairi Quinn, the finance minister, angrily compared the head of the campaign with Adolf Hitler, a remark he subsequently apologised for.

Speaking on Irish radio yesterday, Mr Bruton said a No vote would have an impact on Irish politics for "20 or 30 years. Other decisions can be

remedied, this one can't".

The government is calling for a Yes vote, to bring Ireland into line with its European partners. At a time when Dublin is trying to encourage the protestant minority in Northern Ireland to take a more inclusive attitude to the Roman Catholic Irish minority, Mr Bruton warned that a vote on divorce which ignored the rights of the 40,000 couples who have suffered marital breakdown would do little to help the peace process.

Mr Bruton's airwaves appeal is clearly targeted at the 14 per cent of the electorate who, according to the latest poll,

remain undecided. The poll in the Irish Independent on Friday shows backing for a Yes vote has fallen to 47 per cent compared with 35 per cent against. This contrasts with a high of 59 per cent in favour in May when the government unveiled its plans, which included a four-year period between marital breakdown and remarriage, aimed at countering charges that the government was introducing a "quid pro quo" culture.

All parties in the Dail, the Irish parliament, are publicly calling for a Yes vote, although some individual MPs have said they will vote against. But

both Mr Bruton's own Fine Gael party, and the opposition Fianna Fail party, enjoy large support in rural Ireland, where opposition to divorce is traditionally strongest. The reform is driven largely by Mr Dick Spring's Labour party, who made it one of the preconditions for its participation in coalition with Fine Gael.

In 1986, divorce was defeated in a referendum by 21. The issues then were concerns over property and welfare rights. The anti-campaign is again highlighting economic aspects of divorce with posters warning that "You will pay". Ireland introduced a judicial

separation act in 1989. In 1988-89, the courts processed some 2,800 applications, compared with nearly 16,300 marriages over the same period. However, there are estimated to be 40,000 broken marriages. In addition 23,000 people are claiming single parent and deserted wives allowance, according to the pro-divorce campaign.

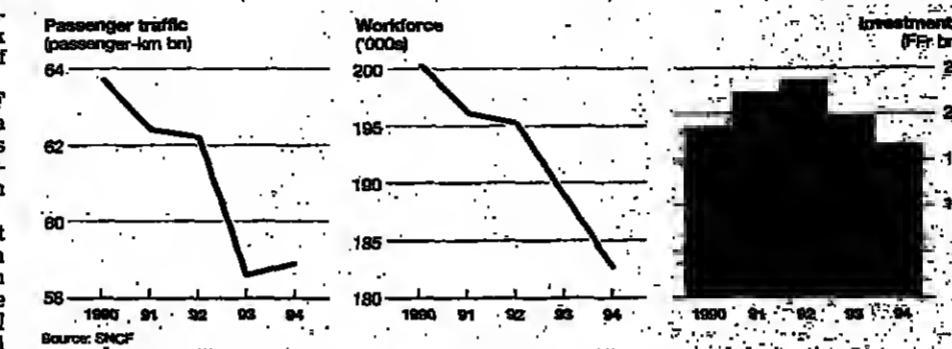
Mr Bruton was keen to stress this was a cross-party effort and praised the courageous

stance of Mr Bertie Ahern, the Fianna Fail leader, whose own marital breakdown and subsequent new relationship have been well publicised.

SNCF's finances start to run off the rails

Losses on the French state-owned rail network are forecast to top FF11bn this year, writes John Riddings

SNCF



The privatisation is out of the question," says Mr Jean-François Bénard, SNCF's managing director.

"We have a fundamentally different philosophy to that of Britain," he says, referring to the splitting of British Rail between Railtrack and operators.

"We will remain a public company and an integrated company."

He believes that efficiency in planning, security and clients are best served by a single, coordinated entity. Political considerations are equally important.

"The French are strongly attached to our system," says Mr Bénard. Privatisation is a potentially explosive issue, and is fiercely opposed by the country's trade unions.

But if dismemberment and

sale are not options, neither is the *status quo*. Competition is set to rise further as a result of airline liberalisation and deregulation in the rail sector prompted by a 1991 EC directive opening national networks to third parties.

To such general pressures are added specific problems. Big investment projects, notably the high-speed TGV network, have inflated SNCF's debt burden and led to interest charges of more than FF14bn this year.

And some trains, for example, those which travel between Limoges and Brive, via Nantes in central France, carry an average of 16 passengers.

Many of the 10,000 trains which run daily on 32,000km of France's rail network do so at a substantial

loss, but cannot be closed without government approval.

Progress has been made. Since Mr Jean Bérymoune took over as chairman in May 1994, passengers have been drawn back on to the rails, partly through improved marketing and service. Passenger traffic has declined last year, while turnover is set to rise from FF64bn to FF67bn this year.

But for many, the pace is inadequate. "Structural change is too slow," says the OECD in its September report on France, which was published in September.

It cites rigid work practices, SNCF's lack of power to close unprofitable services and its lack of freedom in setting prices on many routes.

All of these problems are on

the table as SNCF and the Nord-Pas de Calais in northern France are set to experiment with this reform from the beginning of 1996.

The problem is that such measures are likely to encounter strong opposition. Many local officials claim that attempts to increase the role of the regions are merely a way of shifting the financial burden. "We do not have the funds to operate local railways," says one provincial mayor. "This is just to shift the blame for closures."

The SNCF must be the motor of its own recovery by winning back customers and addressing its costs," says Mr Bernard Pons, the transport minister.

Conditions will be based on improved productivity and operating

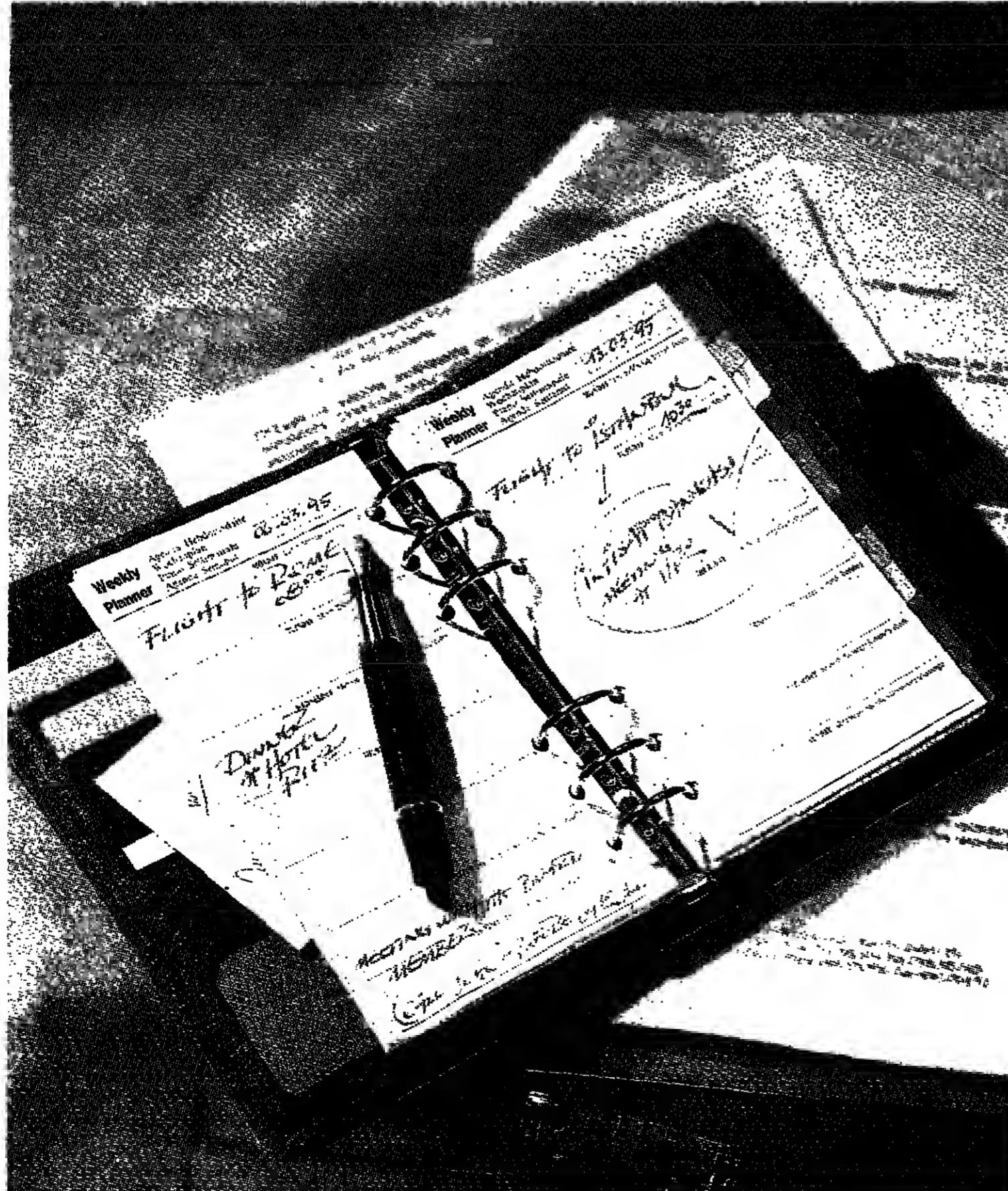
The 180,000 headcount is expected to be reduced by a net 4,000 to 5,000 annually for the next few years.

Property assets will be sold and investments are to be cut, although planned high-speed lines in the south and east should go ahead.

At the same time, regional authorities will be pressed to take financial responsibility for local networks.

They will decide whether to continue operating trains on specific routes or to substitute other transport, such as buses.

Five regional councils, includ-



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US distaste for deployment grows

By Bruce Clark
in Dayton, Ohio

The prospects for a successful and broadly supported dispatch of US troops to Bosnia as part of any peace settlement dimmed over the weekend as opposition to the proposal hardened.

Latest reports from the US legislature indicated that the House of Representatives strongly opposes such a deployment, while the Senate is more open-minded but still sceptical.

Mr Robert Dole, leader of the Republican majority in the Senate, reaffirmed over the weekend that President Bill

Clinton had yet to make a convincing case for the deployment of some 20,000 ground troops to police a Bosnian settlement.

Bitter opposition to any deployment was reflected in a House of Representatives vote late on Friday night which decided by 243-171 that no money should be spent on US peacekeeping troops in Bosnia unless legislators specifically endorse the mission.

The votes' margin was well short of the two-thirds majority which would be needed to overturn a veto from President Clinton.

However the tone of the debate reflected furious opposi-

tion to the idea of putting US lives in danger as part of a Bosnian peacekeeping mission whose precise purpose and likely risks had yet to be spelled out.

Speaker after speaker in the debate said they were being deluged with telephone calls from citizens who opposed the deployment and did not want Americans to die in such a dubious cause.

Even some representatives who opposed the resolution, out of loyalty to Mr Clinton, said they would reserve the right to oppose the Bosnian mission once the peace talks were over.

Isolationist sentiment was

also running high at a Republican Party "straw poll" in Florida where candidates who called for a deeper involvement with Bosnia and other NATO tasks were heard out in silence, while those who strongly opposed new foreign engagements received tumultuous applause.

Delegates at the straw poll, an informal opinion-sounding exercise, gave 33 per cent of their votes to Mr Dole while Mr Pat Buchanan, the most openly isolationist candidate, came a poor fourth.

However Mr Buchanan was warmly applauded when he called for the US to sever its ties with international

organisations and praised a US soldier who has refused to serve in a UN mission in Macedonia.

The case of Michael New, a 22-year-old army medic who has refused to put on a blue helmet on grounds that this violates his oath to the US constitution, seems likely to become a cause celebre among the growing body of US isolationists.

Mr Clinton has repeatedly said that he has the constitutional right to send US troops to Bosnia without consulting Congress if necessary, but he has promised to seek legislators' opinion and take it into account.

Walesa, Kwasniewski neck and neck in poll

President Lech Walesa and his challenger, Mr Aleksander Kwasniewski, a former communist, were running neck and neck according to preliminary exit polls yesterday evening as voting stations closed in the final stage of Poland's presidential election, writes Christopher Bobinski in Warsaw.

The results from the OBOF polling organisation at 4pm Polish time which gave Mr Walesa 51.1 per cent and Mr Kwasniewski a 48.9 per cent of the vote suggest that the country will have to wait until this evening for the outcome of the election when the final figures are to be published by the State Electoral Commission.

All day yesterday people braved sheet and snow over large parts of the country to vote at the end of an increasingly bitter election campaign. It saw Mr Walesa, legendary leader of the Solidarity movement's fight against communist rule, struggling to beat Mr Kwasniewski, the 41-year-old leader of the Left Democratic Alliance (SLD), a social democratic movement with its roots in the Communist party which ruled the country until 1989.

Mr Walesa's supporters, who included the Roman Catholic church hierarchy, warned fellow Poles that a vote for Mr Kwasniewski risked a return to miseries of the past. Mr Walesa, they said, could keep market reforms on course and propel Poland into the EU and Nato.

There is also some evidence to indicate mental retardation and behavioural problems among a small group of children exposed to radiation in the womb, the WHO notes.

This week's meeting is the first of three big conferences in the run-up to the tenth anniversary of the Chernobyl nuclear accident.

■ An elderly woman (right) passes posters of President Lech Walesa in Warsaw at the weekend. Picture: Reuter



Chernobyl victims under the microscope

By Frances Williams in Geneva

The biggest-ever conference on the health consequences of the Chernobyl nuclear accident nearly ten years ago opens today in Geneva.

Up to 700 scientists, doctors, health specialists and policy-makers are expected to attend the four-day World Health Organisation meeting, intended as the most comprehensive review so far of evidence from Chernobyl and other radiological accidents.

Despite extensive research

since the April 1986 explosion at the Chernobyl nuclear complex in Ukraine, opinions on the health effects still vary. In a new report produced for the conference, the WHO says the main consequence so far have been a sharp increase in the incidence of thyroid cancer among children and widespread "psycho-social" problems due to anxiety and stress.

These in turn, the UN agency says, may be associated with large recorded rises in many diseases that are not themselves related to radia-

tion, including endocrine diseases, mental disorders, and diseases of the nervous system, sensory organs and digestive and genito-urinary systems. Congenital abnormalities have been observed but do not appear to be radiation-induced, the report says.

The accident killed 30 people, hospitalised hundreds and exposed some 5m people in Ukraine, Belarus and Russia to high levels of ionising radiation. Total radioactivity of the nuclear fallout is estimated at 200 times the combined level of

the two atomic bombs dropped on Hiroshima and Nagasaki. Since the accident, the number of thyroid cancer cases among children has soared to 655. In the worst affected area of Belarus, in the direct path of the radioactive cloud, the incidence of thyroid cancer is 100 times pre-accident levels.

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the longer term and continued monitoring is required. Other cancers, such as gastric and colon cancer, may take up to 30 years to develop following initial exposure to radiation.

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Catalan voters set to re-elect nationalist chief

By Tom Burns in Madrid

Voters in the Spanish region of Catalonia look set to re-elect Mr Jordi Pujol, the veteran nationalist leader, to run the area's autonomous government in regional elections yesterday and to penalise the candidates of prime minister Mr Felipe González's Socialist party.

The weakness of Mr González's minority government was further underlined by the strong gains of the main opposition conservative Popular party (PP), which formerly had only a token presence in the prosperous north-east corner of the country. This time it has treated the regional vote as a primary for nationwide elections.

Exit polls broadcast by the state TV and radio network indicated that Mr Pujol, who won Catalonia's first polls to the Barcelona-based parliament in 1980, had his fifth consecutive mandate comfortably in hand although he would be short of an absolute majority. The Catalan leader's Convergencia i Unió (CIU) coalition was expected to gain 66 of the local parliament's 135 seats, against 70 in 1992.

The Socialist party was expected to lose 11 seats, reducing its presence in the

Barcelona legislature to 29, its worst result to date in Catalonia, one of the party's traditional strongholds, according to the polls.

In contrast PP stood to double its seats from 7 to 14. The radical nationalist party, Esquerra Republicana de Catalunya (ERC), was likely to raise its presence in the Catalan parliament from 11 to 15, maintaining its position as the third biggest in the assembly.

The Communist party-led Initiative per Catalunya (IC) coalition was expected to return 11 members, up from 7. With a high turnout of nearly 60 per cent, some 8 points up on past regional votes, Catalonia's 5m electorate appears to have confirmed the trend of a shrinking socialist vote which emerged in municipal elections earlier this year, and to have set the stage for a PP victory in general elections for which Mr González has promised to stage early next year.

The lowered vote for Mr Pujol, apparently reflected voter discontent with the backing that CIU extended to Mr González in the Madrid parliament after the prime minister's Socialist party failed to gain an overall majority in general elections in 1993.

Spanish mixed on the benefits of democracy

By David White in Madrid

Spain: that is the mark Spaniards give to their country's record of democratic government, 20 years after the death of General Franco.

A poll in the leading daily newspaper, *El País*, showed the largest number of people - 43 per cent - were fairly satisfied with the way the constitution had worked so far. Only 8

per cent were very satisfied, 35 per cent said not much and 7 per cent not at all.

Democracy is clearly still winning converts: 76 per cent now thought it better than any other form of government, compared with 70 per cent 10 years ago and only 49 per cent in 1980. But 10 per cent were still convinced dictatorship might be preferable in some circumstances.

Spaniards are split as to whether Francoism is still alive. Definitely a thing of the past, said 48 per cent, the same proportion that thought Francoism still had some or a lot of influence. They are increasingly less divided, however, in their judgment about the Franco period. A clear majority - 63 per cent - think there were both good and bad things about the nearly 40 years of Franco's rule.

Only 26 per cent were certain it was a negative period, slightly fewer than 10 years ago, but the proportion viewing as beneficial was halved from 18 per cent to 9 per cent.

A positive side to the recent spate of press reports about corruption and abuse of power in Spain was the clear satisfaction expressed about freedom of expression. The poll, by Demoscopia, found that 90 per cent felt this was one way in which Spain had changed for the better. But more people thought the economy had got worse (48 per cent) than thought it had got better (39 per cent).



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Published by The Financial Times (Europe) GmbH, Niederkirchener Strasse 1, D-60318 Frankfurt am Main, Germany. Telephone +49 69 449 65 156 650. Fax +49 69 590 4481. Telex 410 156 650. Represented in the United States by J. Walter Thompson Worldwide, 1000 Avenue of the Americas, New York, NY 10036. ISSN 0174 7363. Responsible Editor: Richard Lambert. 50% of the above-referenced two companies are The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

GERMANY
Responsible for Advertising: Colin A. Kennedy. Printer: DVM Druck-Vertrieb Marketing GmbH, Admiral-Rommel-Strasse 6, D-60318 Frankfurt (Main) (owned by Marburg International). ISSN 0174 7363. Responsible Editor: Richard Lambert. 50% of the above-referenced two companies are The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

FRANCE
Publisher: Director: D. Gove, 168 Rue de Rivoli, F-75004 Paris. Cedex 01. Telephone (01) 42 97 00 21. Fax (01) 42 97 00 21. Printer: S.A. Nord Estampe, 192, Rue de Charonne, 75011 Paris. Editor: Richard Lambert. ISSN 0174 7363. Responsible Editor: Richard Lambert. 50% of the above-referenced two companies are The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

SWEDEN
Responsible Publisher: Henrik Carney, 44-46 160 69, Stockholm. Printer: AB Kvaesten. Export: PO Box 6207, S-113 66, Stockholm. ISSN 0174 7363. Responsible Editor: Richard Lambert. 50% of the above-referenced two companies are The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

NEWS: INTERNATIONAL

California delays zero emission car launch

By Christopher Parkes in Los Angeles

Leading carmakers and the Californian government are to renegotiate the terms for the launch of zero-emission vehicles after the two sides reversed out of a policy cut-de-sac late last week.

The commercial launch of non-polluting cars for the mass market is now likely to be postponed until early next century if a recent technology audit assessment – that serviceable, high-performance batteries will not be ready until 2001 at the earliest – proves correct.

Although officials said pollution-reduction targets would remain unchanged, the move marked a setback for the state where environmental policy has played a prominent role

in transforming vehicle design and manufacturing practice.

Proposals that eminent state officials and regional and local government agencies should be the first to be issued with electric cars will feature in talks between industry and policymakers expected to start shortly.

Participants will also discuss an offer from the manufacturers to start sales almost immediately of limited numbers of cars powered by lead-acid battery technology, even though experts agree it has too many drawbacks to be commercial.

Manufacturers remain unconvinced that conventional customers will be interested in vehicles powered by lead-acid batteries because of range limits and long charging times.

More than five years of conflict over the timing and means of introducing zero-emission vehicles, or Zevs, ended after Mr John Dunlap, chairman of the California Air Resources Board, ordered his staff to find a "market-based" alternative to the current mandate which forces carmakers to start selling fixed quotas of Zevs in 1996.

Although both sides have made concessions, the dilution of regulations introduced in 1990 to clear California's atmospheric pollution, estimated to cost \$3bn annually in health costs, is a clear victory for the world's seven biggest motor groups, and California's big oil companies.

The state government's readiness to compromise, which was signalled early last week when Mr James Stock, environment secretary, called

"the greatest flexibility possible", also raises the prospect of a more amenable stance on California's longer-term clean air initiatives.

Under the first stage of the legislation, 2 per cent of the 1998 offerings of Chrysler, Ford, General Motors, Toyota, Nissan, Honda and Mazda were to be Zevs – an estimated 22,000 vehicles.

At present, this proportion is still supposed to rise to 10 per cent by 2003, when other suppliers to the California market, including European groups, are due to be affected.

However, the government's acceptance of the industry's long-argued case that only a "market-based" approach will work, suggests "flexibility" could continue to influence policy well beyond the early launch

phase of the new vehicles.

A General Motors executive, speaking before the air board's decision was announced, complained the state was forcing seven manufacturers to compete for market share, using inadequate technology, in a new segment which had hardly enough potential for two or three producers.

Some reports say the manufacturers

have offered to produce 5,000 electric

cars next year, and increase output to

14,000 by 1998, although one participant said at the weekend he expected

"the entire deck" to be shuffled again.

Although Mr Dunlap said he was

prepared to scrap the 2 per cent quota

for 1998, he added that he expected

help from the carmakers to meet targeted reductions in emissions in the

coming years.

INTERNATIONAL NEWS DIGEST

S Koreans win road contracts

South Korean companies have been selected by Vietnam's Transport Ministry for four out of six World Bank and Asian Development Bank funded contracts worth a total of \$317m (\$200m) to upgrade parts of the country's main road, Highway One, the semi-official Vietnam Investment Review said.

Hanoi also picked a Chinese company for part of the work, the country's first infrastructure project with World Bank and ADB involvement. All six contracts require approval by prime minister Vo Van Kiet.

Three of the contracts for the road, a 2,300km two-lane highway linking Hanoi with Ho Chi Minh City, are partly funded by an ADB loan worth \$150m. The winning companies were Yon One, Sung Sung and Keang Nam, all of South Korea and each in joint venture with Vietnamese companies. The other three contracts were partly funded by a World Bank loan worth \$158.5m. These went to Kuk Dong of South Korea, Taiwan's BEIS Engineering and China Overseas Engineering of China.

Jeremy Grant, Hanoi

Mexican economy shrinks

The Mexican economy continues to contract at an alarming rate, according to latest economic figures, which showed gross domestic product fell 0.6 per cent in the third quarter from the same period in 1994. This followed a 10.5 per cent decline in the second quarter.

Fears that the Mexican recession would last longer than previously thought had contributed to the peso's 20 per cent fall over the past two months, although the currency recovered slightly late last week.

The drop in economic activity comes in spite of Mexico's booming external sector, which the government estimates will increase exports by 27.7 per cent in the current year. The size of the fall may also mean the economy will contract by more than the 5.5 per cent the government has predicted for 1995. Manufacturing contracted by an annual rate of 9.2 per cent in the third quarter, while construction fell 24.7 per cent in the nine months to September.

Daniel Domínguez, Mexico City

Go-ahead for Turkish elections

Turkey's Constitutional Court confirmed at the weekend that elections called by Mrs Tansu Ciller, the prime minister, for December 24 can go ahead. The court rejected an opposition claim she had not allowed enough time to prepare for the poll.

In October Mrs Ciller called the early elections after a crisis that had led to the collapse of her coalition government. Confirmation of the election date now rests with the High Electoral Court, which is expected to rule today.

But the court struck down two articles of the election law. It ruled against a requirement that parties clear a high minimum vote threshold in each province to represent that district in parliament. Observers say Refah, the large Islamic fundamentalist party, and smaller nationalist and fundamentalist groups will benefit at the expense of larger mainstream parties.

The court also cancelled an article creating a single national constituency for 100 new MPs, who would be allocated seats on the basis of party voting. The court said they should be elected at provincial level instead.

John Barham, Ankara

Hopes for Argentine opposition

Argentina may see the glimmer of an effective political opposition following the election to the Radical party chairmanship this weekend of Mr Rodolfo Terragno, a 52-year-old lawyer. Mr Terragno, who replaces former Argentine president Raúl Alfonsín as head of the century-old party, has promised to step up attacks on government neo-liberal policies which he says have caused recession, record unemployment and growing social injustice.

The Radical party has effectively collapsed as an opposition force since it signed a political pact with the governing Peronist party in 1983, allowing President Carlos Menem to seek re-election.

Mr Terragno, who won the chairmanship with the support of party members opposed to the pact, promises to lead a more aggressive and coherent opposition force. The opposition's first challenge will be during mayoral polls for Buenos Aires early next year.

David Pilling, Buenos Aires

Cuba uses IMF guidelines in economic report

By Pascal Fletcher in Havana

Cuba, moving to restart talks with western creditors, has produced the first detailed statistical report on its economy in five years, using International Monetary Fund guidelines to compile previously unpublished balance of payments figures.

The 35-page document was presented by Mr Francisco Sobremundo Cuban, central bank head, to the island's main government and private bank creditors in September, during visits to Japan, France, Canada, Britain and Spain for exploratory talks on Cuba's convertible currency debt.

The report puts this total debt at \$6.1bn at the end of 1994. However its novelty lies in the publication for the first time of balance of payments figures using IMF-recommended methods instead of the old accounting system used by Cuba when it was a member of the defunct Soviet-led Comecos trading bloc.

The document announces an improvement in Cuba's current account from 1983 to 1994. It shows the deficit on the current account reduced from \$371.6m in 1983 to \$81.2m in 1994, and attributes this to an increase in exports and a rise in net current transfers, mostly comprising income from "domestic and remittances", the latter from Cubans living abroad.

Presentation of the new statistical data, which had been specifically requested by creditors, forms part of a concerted public campaign by the Cuban government to bolster confidence at home and abroad about the prospects of economic recovery. Cuban leaders have announced advances in macroeconomic policy and upbeat economic growth predictions – 2.5 per cent forecast for 1995 – in recent weeks.

The government, which acknowledges its finances are badly squeezed by a heavy reliance on short-term, high-interest external financing, is desperate to gain access to medium- and long-term credits.

Cuba has been starved of such credits since debt talks with Paris Club creditors stalled in 1986, a situation worsened by the collapse of Soviet bloc trade and aid after 1990 and by a continuing US economic embargo that blocks financing from multilateral bodies such as the IMF and World Bank.

Havana-based diplomats said Cuba's Paris Club creditors were now digesting the new Cuban statistical information.

"This presentation of information is the first step towards a dialogue," one senior European diplomat said.

Bid to postpone Chechen polls

The decision to hold elections to choose the head of the Chechen republic on December 17 could spark further serious violence in the troubled Caucasian region, Chechen leaders warned yesterday. Mr Khoz-Akhmed Yarkhanov, the chief Chechen negotiator at the peace talks with the Russian federation, said the Chechen parliament's decision to hold elections on the same day as the parliamentary poll in Russia could lead to civil war.

"Military actions should be stopped, troops should be withdrawn and the population should be disarmed as pre-requisites of the elections," he told the Interfax newsagency.

The attempt to postpone the Chechen election has been supported by Mr Arzandy Volsky, the deputy head of the Russian peace delegation, contradicting the official Russian line.

"By the end of December 17 we may have to learn the results of military actions in Chechnya rather than the election results," Mr Volsky said.

John Thornhill, Moscow

The nation's dock workers went on strike from midnight on Thursday and miners were due to walk out at midnight yesterday. The entry of Mr Hawke, a former president of the Australian Council of Trade Unions, follows a decision by Justice Deidre O'Connor, the AIRC's president, to refer the matter to a full bench of the AIRC, the highest level of arbitration. Mr Laurie Brereton, federal industrial minister, made clear that Ms O'Connor would impose a settlement on the two parties if necessary.

Nikki Tait, Sydney

Hawke enters mining fray

Former Australian prime minister Bob Hawke will appear before the Australian Industrial Relations Commission today on behalf of the trade union movement, as an attempt is made to settle its industrial relations battle with CRA, the mining group.

The dispute over rights to collective bargaining and the principle of "equal pay for equal work" stems from CRA's efforts to move employees at its Weipa bauxite mining operations on to individual staff contracts. But its repercussions have been much broader.

The nation's dock workers went on strike from midnight on Thursday and miners were due to walk out at midnight yesterday. The entry of Mr Hawke, a former president of the Australian Council of Trade Unions, follows a decision by Justice Deidre O'Connor, the AIRC's president, to refer the matter to a full bench of the AIRC, the highest level of arbitration. Mr Laurie Brereton, federal industrial minister, made clear that Ms O'Connor would impose a settlement on the two parties if necessary.

Nikki Tait, Sydney

Mulroney sues over Airbus claims

By Bernard Simon in Toronto

Mr Brian Mulroney, Canada's former prime minister, will today file a claim for C\$50m (523.4m) damages against Canadian law enforcement authorities who have linked him with alleged kickbacks in the sale of Airbus aircraft to Air Canada in 1988.

Mr Mulroney's alleged involvement in the C\$1.8bn aircraft deal surfaced publicly for the first time over the weekend.

Local reports said the Canadian justice department named the former prime minister in a letter to Swiss authorities in late September. The letter requested information on two numbered Swiss bank accounts and asked the Swiss authorities to freeze the accounts.

The Air Canada order, for 34 Airbus A-320s, marked an important breakthrough in North America for Airbus Industrie, the European aircraft maker.

Airbus's two US rivals, Boeing and McDonnell Douglas, competed strongly for the contract. The A-320s replaced a fleet of Boeing 727s.

Mr Mulroney was prime minister at the time, and Air Canada was a government-controlled corporation. The airline has subsequently been privatised.

Rumours that the Airbus deal involved payment of secret commissions have swirled around Ottawa for several years. They resurfaced recently with reports that C\$17m was paid to a Liechtenstein front company, which allegedly funnelled the money into Swiss bank accounts.

Airbus Industrie, Air Canada and other alleged participants have strongly denied the rumours. A Royal Canadian Mounted Police official indicated last week that the requests to the Swiss authorities were based on allegations, rather than on hard evidence. A response from Switzerland is expected within a few weeks.

Mr Mulroney's claim is expected to be heard in the Quebec Superior Court today. He will seek C\$50m in damages from the justice department and the Mounties.

His lawyers said the allegations linking the former prime minister to the Airbus contract were false and generated by media speculation. "He had absolutely nothing to do with Air Canada's decision to buy Airbus," one lawyer said. "Nor did he receive a cent from anyone. He was not part of any conspiracy whatsoever."

Mr Mulroney stepped down as prime minister in 1993. He now works for a Montreal law firm and is a director of several large multinational companies, including Archer Daniels Midland, the US food processor, and Horsham, the Toronto-based investment holding company.

Mr Jean Chrétien, Canada's current prime minister, said over the weekend that he was not aware of the investigation concerning Mr Mulroney.

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JPV 10/95

Apec in free trade compromise

By William Dawkins and Guy de Jonquières in Osaka

Pacific rim leaders yesterday vowed to pursue with "unswerving resolve" their plan to free all trade and investment by 2020, but failed to agree exactly what that target meant.

The 18 members of the Asia-Pacific Economic Co-operation (Apec) forum adopted an intricately worded compromise, designed to commit countries as diverse as Brunei and the US to working together to liberalise trade in a region representing half the world's

gross domestic product.

The 111-page document lays out nine principles, including a promise to liberalise all industrial sectors, to allow less advanced economies to meet the plan flexibly and to make Apec trade concessions available to the rest of the world.

However, leaders yesterday disagreed on central points, such as the meaning of free trade and whether the deadline was binding.

Mr Mahathir Mohamad, the Malaysian prime minister, maintained that many developing economies, including his own, had reservations over the

deadline. Malaysia did not believe it had to scrap tariffs by that date, in contrast to US trade officials' belief that free trade meant zero import duties. "The decision on whether to abolish or reduce tariffs depends on the ability to do so," said Mr Mahathir.

That view appeared to have some sympathy from Mr Tomiochi Murayama, the Japanese prime minister, who chaired yesterday's summit. He reminded leaders that each had sensitive industrial sectors — including Japan's own rice market — which would be hard to liberalise quickly.

Member states yesterday presented their first individual steps, mainly tariff reductions

and cuts in government red tape, towards the free trade goal.

They also agreed to come back with more steps, including individual five-year free trade plans, at next year's summit in Subic, the Philippines.

Developing Asian countries, led by the Philippines and Malaysia, voiced concern over how the year's strength had driven up the price of imported Japanese components and the local currency cost of servicing yen loans. In response, Apec leaders agreed that finance ministers should meet to discuss currency instability.

Hamas to join election battle

By Julian Ozanne in Jerusalem

The militant Islamic Hamas movement, responsible for scores of violent attacks and suicide bombings against Israelis, said yesterday it would form a political party to compete in forthcoming Palestinian elections.

The announcement marks an important development in Palestinian politics and raises the prospect of suspension of armed struggle by Hamas — which would bolster the Israeli-Palestinian peace process.

Hamas, the main rival to Palestinian leader Yasir Arafat, has so far refused to suspend violent opposition to the peace process and threatened to boycott the first Palestinian elections on January 20. But Hamas officials said yesterday they would form a political party — al-Khalas (Salvation) National Islamic Party — to contest the polls and oppose the peace process through peaceful, democratic means.

Officials said Hamas would remain an underground movement with "secret activities" and it is unclear if formation of a political party signals the end of armed struggle.

Much depends on talks between Mr Arafat and Hamas on the election law and possible power-sharing, which would give Hamas influence over policy, particularly education and religious affairs.

Hamas has encouraged its supporters — estimated at 20 per cent of the Palestinian population — to participate in the registration campaign, which ends on December 2.

Other secular opposition groups, such as the Popular Front for the Liberation of Palestine, have backed the campaign, but said they would urge supporters to boycott the elections.

Croatian port of Rijeka following the detention by the Croatian authorities of its spokesman Mr Jelal al Fouad Qassim. Mr Qassim is under a death sentence by an Egyptian military court and has gone missing.

Only last week an Egyptian diplomat at Egypt's embassy in Switzerland was shot dead at his home in Geneva.

A previously unknown group called the Gama'a al-Adl al-Alamiya (Group for International Justice), an external unit of Gama'a al-Islamiya, said it carried out the Swiss attack "under the law of retaliation".

Since surviving the assassination attempt in Ethiopia, Mr Mubarak has been campaigning strongly for an international effort to clamp down on wanted militants who are living abroad.

Pakistan has long been a resting place for Muslim militants who went to Afghanistan to help the Mujahideen in its war against the Soviet-backed government.

Egypt has been pressuring the Pakistani authorities to expel Egyptian militants believed to be residing there. One of the more famous is Mr Shawqi al-Islambouli who took part in the assassination of the late president Mr Anwar Sadat in 1981 and later helped found the Gama'a.

Last year the two countries signed an extradition treaty which has been used for a number of cases.

Security officials from Cairo were yesterday preparing to fly to Islamabad to help with the investigation into the car bombing and security arrangements at all Egyptian embassies and interest sections are to be reviewed.

Pakistan bomb signals change of strategy

By James Whittington in Cairo

The suicide car bombing yesterday of the Egyptian embassy in Islamabad is the bloodiest attack on Egyptian government interests since the country's largest Moslem militant group, Gama'a al-Islamiya, declared war on President Hosni Mubarak's administration in 1982.

The fact that it took place outside Egypt's borders appears to be part of a change in strategy by frustrated militants. Their campaign to topple the government by force has suffered badly at home following a successful campaign by the Egyptian security forces over the past 18 months to wipe them out of the big cities and main tourist venues.

Arrests and military trials have forced many of the group's remaining members to go to ground in parts of Upper Egypt, where a low intensity war with the local police continues on a daily basis. Others have sought refuge abroad.

By calling on their international network of brothers in arms and sympathisers the militants have shifted their attention to relatively soft targets abroad.

The Pakistani bombing is the fourth such attack outside Egypt in the past five months for which the Gama'a itself has claimed responsibility.

In June, the group launched its first foray into foreign territory with an ambitious but unsuccessful attempt to kill Mr Mubarak in the Ethiopian capital Addis Ababa where he was due to attend a summit of the Organisation of African Unity.

In October, the Gama'a claimed responsibility for a car bomb which went off at the

Concessions break little new ground

By William Dawkins and Guy de Jonquières

Pacific rim governments' first individual steps towards achieving their ambitious goal of free trade and investment by 2020 yesterday proved, with one exception, to be unconvincing. At first sight, very few of the 18 leaders in Osaka yesterday, save China's president Jiang Zemin, had much new to offer beyond what they had already announced since last

meeting in Bogor, Indonesia, last year.

As Mr Mahathir Mohamad, Malaysia's prime minister, admitted: "It seems quite clear that everyone is taking credit for things that they have already done."

One trend, however, was obvious. Developing countries with highly protected markets were able to offer greater trade concessions than relatively open, advanced economies. The US administration was hampered by its lack of legislative authority on trade,

but other advanced economies, such as Australia and Japan, found it impossible to match the best of the east Asian liberalisers.

One trade negotiator from an advanced economy accorded top marks for progress to Indonesia and Singapore. They reaffirmed their commitment to radical tariff cuts, of up to 10 percentage points in Indonesia's case. The US came bottom of the class, for its relaxations of customs rules and controls on export of equipment with possible defence uses.

At least one Apec member — Japan — has slammed its free trade concessions to benefit Apec partners more than the rest of the world. Japan is to cut tariffs on 67 items, representing \$10m worth of annual imports, of which 80 per cent happen to come from other Apec members.

The aim was to favour Apec partners without contravening the World Trade Organisation rule that trade concessions must be available to all, explained a Japanese trade official.

Asian members resist muscular approach

US remains uncharacteristically passive as mood of quiet consensus prevails

If the importance of international agreements could be measured by the sheer volume of words, the outpourings from yesterday's summit of the Asia-Pacific Economic Co-operation forum in Osaka would command heavyweight status.

As well as unveiling national trade liberalisation packages, the 18 leaders endorsed a programme to free regional trade and investment by 2020.

But it is uncertain how much closer to reality this river of print takes the leaders' vision of regional free trade.

Apart from China, few of their liberalisation pledges broke new ground, and their joint statements artfully papered over differences about the speed and scope of future market opening.

To sceptics this vagueness may seem further confirmation that Apec is too unwieldy, and its members' economic disparities too wide, for their trade liberalisation ambitions to succeed.

Nevertheless yesterday's summit exposed a marked shift in the balance of forces shaping the development of the six-year-old grouping.

Until now, Anglo-Saxon members — above all the US — have viewed Apec mainly as a weapon to break down trade barriers in east Asia. They have wanted it to be a formal negotiating body, akin to the World Trade Organisation, with clear rules and binding institutional procedures.

But most Asian members, while concerned to resist US protectionism, prefer to make progress by seeking consensus through intensive consultation. President Fidel Ramos argued yesterday that the "Asian way" was more effective than formal government treaties.

Under Japan's Apec chairmanship, Asian preferences have gained the ascendancy, so much so that a senior Japanese official claimed that the traditional US approach of putting trade negotiators at the forefront had become redundant.

Furthermore, Senator Bob McMullan, Australia's trade minister, conceded that even if Apec failed to achieve its 2020 goal, it would still yield valuable gains. "Every year we win," he said. "There's a range, depth and diversity of interest between us that will never be dismantled."

More is at stake than just style. Many Asian governments are increasingly seeing Apec as a means of underpinning regional security — most notably by cementing China's engagement with the outside world.

Such thinking received unexpected support last week from US defence secretary William Perry, who suggested that the grouping develop an explicit regional security role.

Though some Apec members — and other US officials — were cool to the idea, it was cautiously endorsed yesterday by Mr Tomiochi Murayama,

Six steps to free trade

- Seattle, US, 1993 — Agree a broad vision of free trade and investment, to be defined in more detail over the next year
- Bogor, Indonesia, 1994 — Agree to free all trade and investment by 2020, a decade earlier for advanced economies
- Osaka, Japan, 1995 — Define broad principle of how to proceed, through voluntary liberalisation measures in consultation with each other. Agree to shelve divisive and difficult questions, such as Apec's relations with the rest of the world
- Intermediate steps towards free trade
- Subic, Philippines, 1996 — Individual members publish medium term free trade action plans, for implementation by the end of 1999. Members to comment on each other's free trade steps, to put moral pressure on slowcoachers
- 1996-2010 — Progress from medium term action plans to the final goal. How and when to resolve most difficult issues remains deliberately vague.

Japan's prime minister.

The big question is whether the Asian way can be maintained. Will apparent consensus behind quietly building solidarity through incremental and often unglamorous steps satisfy US trade ambitions?

In Osaka, the US was content to take a back-seat role. In addition to cancelling his trip to Japan, President Bill Clinton is clearly reluctant to launch any big trade initiatives before next year's presidential election, and in any case lacks the legislative authority to do so.

US passivity is not expected to last. "I don't want to dominate this consultation thing, but if that were all Apec involved, it would fail, because the US would lose interest in

it," said Dr Fred Bergsten, head of an Apec advisory group and a former senior US official.

What is most likely to keep the US engaged in Apec is the swelling wave of trade liberalisation by fast growing east Asian members, such as Indonesia, the Philippines and Thailand, where the need to attract foreign capital to finance industrialisation is already spurring unilateral reforms.

Many observers believe pressure within Apec can help accelerate that trend, by emboldening reformist governments in those countries to override resistance from producer lobbies.

For some, Apec is also a convenient diplomatic showcase. China's announcement yesterday

of sweeping unilateral liberalisation suggests it considers Apec a face-saving forum for making concessions necessary to secure its WTO entry. By presenting such measures as voluntary contributions to the 2020 goal, Beijing can claim it is not succumbing to direct international pressure.

However, more concerted action will almost certainly be needed to keep up momentum behind the Apec process.

Although the leaders have set their governments an ambitious work programme, their personal intervention will be required to ensure it is carried through.

Next year's summit, in the Philippines, will be particularly critical. It will need to come up with much more convincing unilateral market-opening measures than it did yesterday, if liberalisation is to get off to a quick start in January 1997.

We will have a difficult time over implementation," admitted a senior Japanese official yesterday.

The Philippines summit is likely to pose a clear test of whether hurdles can best be overcome by Asia's emphasis on patient consensus-building — or whether Apec's non-Asian members will deem it necessary to push for a more direct and muscular approach.

For some, Apec is also a convenient diplomatic showcase. China's announcement yesterday

By Simon Holberton in Hong Kong

Lobbying activities by Hongkong Telecom in Beijing over the award of mobile telephone licences in China pose a threat to the colony's autonomy in economic decision making after 1997, according to a senior British official.

China has encouraged its supporters — estimated at 20 per cent of the Palestinian population — to participate in the registration campaign, which ends on December 2.

Other secular opposition groups, such as the Popular Front for the Liberation of Palestine, have backed the campaign, but said they would urge supporters to boycott the elections.

subsidiary of Britain's Cable and Wireless, yesterday denied the claim. A senior executive said it was not the company's practice to lobby in the way suggested.

A further opening of Hong Kong's lucrative mobile telecommunications market was signalled earlier this year when Hong Kong's office of the telecommunications authority (Ofta) decided the market could accommodate six new entrants.

As the licences to operate personal communications services (PCS) straddle Hong Kong's reversion to China in mid-1997, Hong Kong sought

China's approval for the additional licences.

PCS is a sophisticated digital mobile telephone product that would enable a successful licensee to offer a wide range of services.

Officials say Hongkong Telecom has been fighting a rear-guard action through its Beijing office to persuade China to consent to the award of just four licences.

A Hong Kong government official said: "This is a straight up and down autonomy issue. It is a decision that needs to be taken in Hong Kong in relation to Hong Kong market conditions only."

China economy heading for 'soft landing'

By Tony Walker in Beijing

China's economy is heading for a "soft landing" this year with inflation easing to less than 15 per cent and gross domestic product growth below 10 per cent, according to the State Information Centre (SIC).

But the centre warned that achieving inflation and money supply targets would "not be an easy task". China faces a round of increased salaries and payments to state employees in the last quarter.

Rapidly rising costs of agricultural inputs such as pesticides and fertiliser are adding to pressures for food price increases. The cost of agricultural inputs rose 21.9 per cent in the nine months to September.

The SIC also warned of pressure building on prices for energy, transportation and raw material following a virtual standstill in July 1994.

The centre, which disseminates forecasts of the Chinese economy on behalf of the State Planning Commission, was, however, fairly positive in its assessment of progress this year. "The economy is expected to end this year with stable industrial growth, an improved financial situation and inflation under control," the centre reported.

GDP growth would moderate to 7.9 per cent compared with 11.8 per cent in 1994. Retail price inflation would stand at 14.8 per cent compared with 21.7 per cent.

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NEWS: UK

Telecoms regulator in row over networks

By Hugo Dixon and Alan Cane

The British government and the telecommunications industry regulator are at odds over the speed with which BT and Mercury Communications' exclusive rights to operate international networks out of the UK should be abolished.

The companies retained the sole right to run international services when their control of the rest of the UK telecoms market ended in 1991.

Mr Doo Cruickshank, director general of Ofcom, said last week that international services should be fully liberalised as soon as possible. He is

urging more competition on the grounds that it will lead to lower international tariffs.

However, the Department of Trade and Industry said that while it was not opposed to liberalising international services, it was working within a framework set by the European Union and the World Trade Organisation.

The EU has directed that telecoms markets across Europe should be opened to competition from January 1, 1998. It has submitted its plans to the World Trade Organisation as Europe's contribution to negotiations to open up world telecoms markets.

It is thought the DTI is in no hurry to open the market because liberalisation could damage the UK's interests and affect the balance of trade.

Under the industry's "accounting rate" regime for handling international calls, this would lead to British operators paying more to their counterparts in other countries for delivering calls to their final destination.

Last year, outgoing calls from the UK totalled 3.13bn minutes, while incoming calls came to 3.58bn minutes, a surplus of 44m minutes of billable traffic. BT is fifth on the international operators' list with revenues of \$2.9bn (£1.85bn) from outgoing international traffic, and Mercury 17th with \$741m. Although international charges have fallen sharply in recent years, they are still much higher than costs, and are one of the most important profit sources for BT and Mercury.

The companies are understood to have persuaded the DTI that abolition of their monopoly would be against British interests because many overseas markets are still closed to competition. This would lead to a situation where foreign telecoms monopolies were free to compete in the UK but BT and Mercury would remain shut out of their markets.

Both BT and Mercury said last week they could not comment until completion of the negotiations between Mr Cruickshank and the DTI. The final say on whether to liberalise international networks lies with ministers. But if they decide to retain the monopoly, Mr Cruickshank says he may pursue other ideas that could reduce the benefit BT and Mercury enjoy from their exclusive rights. In particular, he is considering whether to allow other telecoms groups a share in the profits BT and Mercury gain from handling incoming calls.

See Lex

Conservatives scorn Labour plan for tax cuts



Gordon Brown: wants to eliminate 'poverty trap'

By George Parker, Political Staff

Britain's opposition Labour party's plan for a £5bn (£8.42bn) package of tax cuts and benefit reforms to help low earners out of poverty were yesterday scorned by the Conservatives and rejected by the independent Institute of Fiscal Studies as "a gimmick".

Mr Gordon Brown, the shadow chancellor, launched a pre-Budget strike when he committed Labour to a new 10p rate of income tax as part of a drive to eliminate the "poverty trap" that deters people on welfare going back to work.

His proposals were immediately denounced by Mr Brian Mawhinney, the Conservative

chairman, who claimed Labour's proposed tax cuts and spending plans would bring the country to the brink of bankruptcy.

Mr Brown's plan to cut the starting rate for income tax from 20p to 10p over time also flew in the face of the recommendations of Labour's own social justice commission, which said a better way to help low earners was to raise tax thresholds.

But the shadow chancellor said a cut in the starting rate of tax was the best way to help low earners, because it helped to remove the cripplingly high marginal rate of taxes at the bottom end of the pay scale.

In a speech today, Mr Brown will compare Labour's commit-

ment to help low earners with Mr John Major's long-term promise to scrap inheritance tax and capital gains tax, which he said would primarily help the better off.

"Our long-term objective is a new lower starting rate of tax at 15p or preferably 10p," he will say. "My long-term aim is a tax cut which benefits everyone both directly and by putting people back to work, releasing the resources for stronger public services."

Mr Brown said the cut in the bottom tax rate would be implemented when it was affordable "under the fruits of growth" of a Labour government.

At present, 5.5m people pay the lowest tax rate, 20p in the pound, which applies to the

first 23,200 of taxable income. Labour would move to the proposed 10p band in stages, but the total final cost would be around £5bn.

Mr Andrew Dilnot, director of the Institute of Fiscal Studies, described Mr Brown's plan as a gimmick. "If Gordon Brown is serious about doing his best for people on low incomes through the tax system, he should use any money he has through raising tax allowances," he told the BBC.

But Mr Paul Gregg, senior researcher on pay at the London School of Economics, said Mr Brown's changes would do a great deal to reform a tax and benefit system which left low earners facing marginal tax rates of 80 per cent or more.

Dublin lukewarm on peace proposal

By John Murray Brown in Dublin

Irish officials yesterday gave a lukewarm response to Mr John Major's proposals for breaking the impasse in the Northern Ireland peace process, as London and Dublin try to agree a date for a summit before President Bill Clinton's visit at the end of this month.

An Irish government spokesman said the proposals, to a letter from the UK prime minister to Mr John Bruton, his Irish counterpart, were being examined over the weekend. The two are expected to speak by telephone early this week.

A senior official said, however, that "most of the differences that we had at the start still remain".

British officials say the proposals constitute a "re-working" of the twin-track approach.

This envisages the start of preliminary talks between Northern Ireland's political parties to prepare an agenda for full round-table negotiations. At the same time an international body would be set up to report to the two governments on arms decommissioning and other issues.

Dublin pulled out of a summit in September after Sinn Fein, the IRA's political wing,

indicated that it would not co-operate with the international body, which it says is seen by London as a way to secure an IRA surrender.

Mr Martin McGuinness, Sinn Fein's chief negotiator, yesterday indicated that the IRA would not co-operate with the commission if the British insisted on retaining its demand that the IRA start decommissioning its arms before Sinn Fein could be admitted to all-party talks.

In an interview on BBC television, Mr McGuinness accused the British of adopting a "cynical approach" to the international arms body.

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Ferry safety move faces lack of world support

By Charles Batchelor, Transport Correspondent

Proposals to tighten safety standards on roll-on/roll-off ferries face a difficult passage through the International Maritime Organisation when the UN's body starts to consider the issue in London today.

In spite of the backing of the UK and Sweden, which have both suffered ferry disasters in recent years, and the support of a group of north European countries, it is not certain that the proposed improvements will receive the backing of the international maritime community.

"It's finely balanced," said one official. "I don't think we'll get an international agreement but we will get a regional one."

France and the Mediterranean countries including Greece are known to be opposed to the idea of raising standards because this would increase the capital and operating costs of ferries. They are expected to say that weather in the Mediterranean is not as severe as in the North Sea and the Baltic.

Britain has said it will try to put in place a regional agreement covering the the north European countries if a worldwide accord cannot be reached. Failing that, it would go it alone in imposing higher standards.

British officials have estimated that the cost of improving safety on the 40 British ferries which serve UK ports could be as high as £200m over the next four years, including the cost of modifying vessels and restrictions on operating procedures which would result.

A further 30 ferries which use UK ports but which fly foreign flags would also have to be modified.

UK ferry companies would be expected to meet the cost of improving their vessels. Until new vessels come on stream the modifications would create work opportunities for maintenance and repair yards in the UK and abroad.

The issue of improved ferry safety arose after the sinking of the Estonia in the Baltic in September 1994 with the loss of 900 lives. Britain suffered a ferry loss when the Herald of Free Enterprise capsized out of Zeebrugge harbour in 1987 with the loss of 183 lives.

The UK, Sweden, Denmark, Finland, Norway, Germany and the Republic of Ireland have pledged their backing for a new set of international standards but they require the approval of two-thirds of voting countries.

Only 30 of the IMO's 180 members operate ro-ro ferries so most countries are expected to be neutral to the proposals. Japan is in favour of a regional agreement.

Meanwhile Mr Michael Howard, home secretary, will today tell Labour MPs that asylum-seekers from Nigeria will not be among those dealt with under a new "fast track" procedure to quickly weed out bogus applicants. Mr Howard is expected to make a Commons statement setting out details of the asylum and immigration bill, with aides insisting that he hopes to take some of the political heat out of the issue. He will dismiss reports that Nigeria, Algeria and Sri Lanka would be among those countries on a so-called "white list", under which asylum applications are considered on the fast-track basis.

George Parker, Political Staff

Halifax in share move

The millions of customers of Halifax Building Society who will receive free shares when the society becomes a public limited company could be offered a guaranteed minimum price for their shares if they sell soon after the flotation.

Halifax, the UK's largest mortgage lender, and its advisers are looking at how to ensure that when the society floats there is an orderly way for institutional investors to buy the shares which will be sold by many of the estimated 10m individual investors. As a plc Halifax would be a FTSE-100 company, and institutional investors would need to include it in their portfolios. Its merger with the Leeds Permanent in the summer took its total assets to over £900m.

The Halifax flotation is likely to take place towards the end of next year.

Alison Smith

M4 strength puzzles economists

Graham Bowley looks at the behaviour of Britain's money supply

Something strange is happening to Britain's money supply, much to the puzzlement of economists and policy makers.

While most economic indicators – such as retail prices, wages, commodity prices and measures of real output – currently point to a slowing of the UK economy and suggest that inflation remains subdued, the money supply continues to grow strongly – hinting that a sharp acceleration in inflation could perhaps be just around the corner.

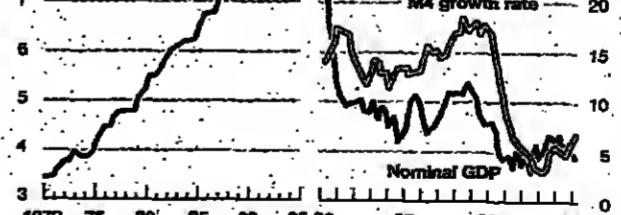
Indeed, in the September monetary meeting between the chancellor and the governor of the Bank of England, the chancellor said that his main cause of concern about inflation was "the continuing strong growth of M4". He added that "in recent years M4 has behaved in an unpredictable way."

Provisional estimates published today show fast M4, the broad measure of the UK's money stock, grew last month and are therefore likely to be scrutinised closely.

Economists within the Treasury and Bank of England and across the City of London will be looking for further clues which might help determine whether the inflationary threat of strong money growth is real or not. They will also be looking to explain why the money supply's behaviour is currently so unpredictable.

M4 behaving badly

Annual % change



Source: CBO, Bank of England, BIS and International Financial Statistics

Nominal GDP

the past year, rates on bank and building society deposits have not risen sufficiently to tempt them away from cash.

Secondly, people may now believe that the opportunity cost of holding cash has been permanently reduced because they expect inflation to remain low. Certainly the velocity of money – a measure of the rate at which notes and coins change hands – has begun to slow in recent years.

In the same Report, the Bank of England tries to explain why, after the relationship between money supply and nominal activity has been so close for much of the 1990s, the two should have now started to diverge.

It again puts forward two reasons. One is that people may have been induced to stop spending their money, deciding instead to save more – either because of higher interest rates or because of greater uncertainty about income and unemployment.

The second is that banks may have become more willing to lend money or people may have become more willing to borrow from banks.

Breaking total money supply down into different sectors, the Bank finds that nearly half the £28.7bn rise in M4 between December and September this year was in deposits of individuals.

JPV1016

Euro scapegoat switches to attack

You will recall the story of the standard Euro-condom in its original form, the proposal supposedly ignored the principle of subsidiarity in EU legislation which calls for the respect of different national characteristics. After a lengthy wrangle, a compromise ensued which failed to measure up - you might say - to British ambitions.

All good clean fun, unless you happen to work for the European Commission, the perennial fall-guy when it comes to Euro-myths. Flat-footed bureaucrats have never quite managed to dispel the notion that they are out to ban saucy seaside post-cards, the asymmetrical Christmas tree, or the prawn cocktail-flavoured crisp.

But two events last week suggest that the Commission is fighting back. The first sound of someone slipping on the gloves coincided with an uncharacteristically robust response to the annual court of auditor's report on fraud and financial mismanagement in the EU's annual Ecu 50bn budget; the second was less audible but more important, and appeared in the shape of the Commission's annual work programme for 1996.

Let us deal with the court of auditors first. This catalogue of incompetence, mis-

management and waste - featuring crooked Mediterranean farmers taking advantage of the common agricultural policy and organised criminals in the former Soviet Union exploiting well-intentioned EU "technical assistance" programmes - has always been a journalist's dream and the Commission's nightmare.

Jacques Delors, holed up in his presidential office, rightly used to complain that most of the reporting on the auditors' report was misleading or exaggerated; but he was always more interested in big ideas than tight budgets and never in his 10 years in Brussels figured out a media strategy to prevent the Commission being turned into a scapegoat.

Enter Erikk Likanen, the youngish former Finnish finance minister who arrived in town this year as the new financial manager of the budget, the financial management and personnel. His first move was to open diplomatic relations with the court of

DATELINE

Brussels:
a bureaucratic pledge
to do "less, better"
is working, writes
Lionel Barber

promotion, the aim being to create a new cost-conscious "budget culture".

The pay-off came last week when Likanen was able to convince the parliament, the court of auditors and most of the media that the Commission is getting to grips with financial mismanagement. Just as important, in terms of public presentation, all news stories delivered the message that the Euro-buck should stop with the member states rather than the Commission when it comes to the EU budget.

So although mislaid and misspent funds amounted to more than Ecu 500m, Likanen pointed out time and again that four-fifths of EU spending passes through member states' hands rather than being dis-

tributed and controlled by the Commission. At times, he sounded like a graduate of some spin-control academy.

By contrast, news of the Commission's work programme for 1996 commanded less public attention. Yet in its own way, the story was just as interesting. No-one could fail to be struck by how far the Brussels executive has scaled back its legislative programme compared to five years ago.

In 1990, the Santer Commission plans to propose just 19 new laws, compared to about 50 this year and a high of 180 in 1990. No new law on social policy is on the way. Instead, the Commission is putting much more emphasis on public discussion through green and white papers, an approach summed up in Jacques Santer's pledge to do "less, better".

The figure of 19 is slightly misleading because it does not include new proposals or regulations in areas where the EU already has laws. And though most of the proposed directives - on child seatbelts, transport of hazardous goods, forest protection and the disposal of old cars - appear fairly harmless, there is still the odd clanger. Only the most starry-eyed Euro-crat could believe that the member



states will support EU-wide standards on media ownership.

The Commission's lighter legislative touch reflects a broader trend. The high-water mark of Brussels-driven legislation, whereby the Commission was always co-conspirator with the member states, has passed. The chief reason is that the near-300 directives needed to create the single market have already passed into law. Now the onus is on member state governments to ensure that they are being enforced on the ground.

FT GUIDE TO AIRLINES

It seems to be a busy time in the aviation business. Singapore Airlines is buying 77 aircraft from Boeing and 157 engines from Rolls-Royce. Boeing is thinking about taking over McDonnell Douglas. Anything else going on?

Well, Northwest Airlines of the US and KLM of the Netherlands, previously best buddies, are at each other's throats. United Airlines and American Airlines were thinking about taking over USAir but both decided not to.

Anything else?

Nearly 9,000 workers at Daimler-Benz Aerospace of Germany have been told they are going to lose their jobs. Fokker, the Dutch aircraft maker, is fighting for its life. About 30,000 Boeing workers are on strike.

Why is all this happening now?

Let's deal with the Singapore news first. Singapore is one of the few highly profitable airlines in the world. Another is British Airways. They can afford to buy new aircraft. Most airlines struggle to make decent profits. Many cannot afford to buy aeroplanes. That's why aircraft makers are having a hard time.

How do Singapore and BA manage to make so much money?

Singapore and BA dominate two important aviation crossroads: Changi airport and London's Heathrow respectively. They bring passengers in from all over the world to their airport bases, where many change aircraft and go somewhere else. They are also, to be fair, well-managed companies offering good service to their customers.

Why aren't the other airlines as profitable?

Some of the European airlines, such as Air France and Iberia of Spain, have been protected from competition by state subsidies and have not kept pace with the cost-cutting and quality improvements of more successful carriers. US airlines suffer from the opposite: they are unprotected. The US market has been deregulated and competition is fierce. Ticket cost has fallen, which is good news for consumers, but it makes it difficult for the airlines to make profits.

Is that why American and United were thinking of taking over USAir?

Yes. With air fares so low, it helps to have more passengers. USAir has had financial and labour problems but it has an extensive network in the north-east of the US which either United or American would have been happy to combine with their own routes.

So why didn't they buy USAir?

Because those financial and labour problems were too onerous and USAir's costs too high.

But isn't USAir linked with BA?

Yes. BA owns 24.6 per cent of USAir. That has caused BA trouble: it had to write off half the £25m it spent buying its stake. But BA and USAir both benefit from the alliance by persuading passengers to transfer between the two airlines rather than travelling on another carrier. That's why US and European airlines like to form partnerships.

But KLM and Northwest, considered an ideal couple, have fallen out. Airline marriages are no easier than human ones and suffer the same strains. Northwest says KLM is overbearing and threatens its independence.

I thought airlines other than BA and Singapore were making money again.

Many are, but aggregate profits are still pitiful. Airlines will make net profits of \$5.7bn on international scheduled flights this year. That beats last year's \$1.8bn and far better than the previous four years when they lost a total of \$15.6bn. But this year's net profits will represent only 4.8 per cent of revenues. The International Air Transport Association, the airlines' trade body, says carriers need a profit margin of about 7 per cent before they can invest confidently in new aircraft.

When might that happen?

Boeing does not expect airlines to begin buying aircraft in large numbers until well into the next century. About 12,000 Boeing workers have lost their jobs this year.

Is that why Boeing is now suffering a strike?

Not directly. The 12,000 went quietly, helped by generous early retirement terms. There are several reasons why 30,000 of the remaining workers are on strike, including a dispute over medical insurance. One reason is that they object to Boeing contracting out more of its aircraft manufacture to other companies. Boeing says it has to in order to keep costs down.

So why is Boeing thinking of taking over McDonnell Douglas?

That is not certain. If it does, it will be because the two companies want to combine defence businesses. A takeover by Boeing may provide McDonnell Douglas with a graceful way to stop making civil aircraft. It is struggling to compete with Boeing and Airbus Industrie, the European manufacturer. It costs a fortune to design and build aircraft and, with orders scarce, manufacturers are forced to give heavy discounts.

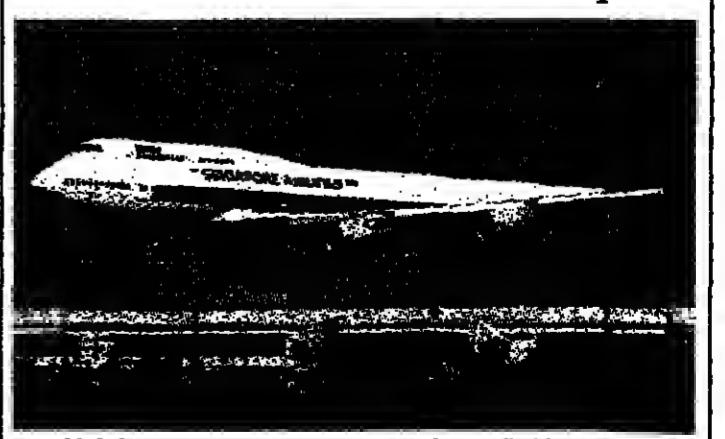
Is that why Daimler-Benz Aerospace and Fokker are in trouble?

Yes. Germany and the Netherlands have the additional burden of high labour costs and a strong currency.

Why does anyone go into this business?

Some do it because they love aeroplanes. The others often ask themselves the same question.

Michael Skapinker



PEOPLE

Times change at US giant Time Warner

Just an average day at the office as the media company loses the head of its music recording division, writes Tony Jackson



Dynamic duo: Terry Semel (left) and Robert Daly

Last Thursday was a pretty average day for the US media giant Time Warner. Michael Fuchs resigned as head of its music recording division, Warner Music. Coincidentally, so did his opposite number at Warner's Hollywood rival MCA. The new head of MCA Music will be Doug Morris. Fuchs fired Morris as head of Warner Music in June.

If this seems confusing, observers of Time Warner are getting used to it. The latest of a series of management upheavals brings to the top of the pile an unusual duo, Bob Daly and Terry Semel.

Already joint heads of the Warner Bros film studio, the two now also have Fuchs' job of running the world's biggest distributor of recorded music.

Gossip has it that Fuchs, who besides being head of Time Warner's music division ran its pay-TV operation, Home Box Office, wanted the job of second-in-command to Time Warner's chairman and chief executive, Gerald Levin. Daly was therefore allegedly lukewarm on Time Warner's impending \$7.5bn acquisition of Turner Broadcasting, which will bring in Ted Turner as No 2 instead.

While Turner is set to be vice-chairman, power underneath him has now shifted decisively to Daly and Semel.

Besides adding the music division to their film business, they will have a big say in the handling of Turner Broadcasting's assets, such as its cartoon network and its library of MGM classic films.

Assuming - as many do - that the mercurial and very wealthy Turner will soon fire off as a Time Warner employee, Daly and Semel seem established as Levin's heirs apparent.

Their partnership is an unusual one. Semel, 52, is a life-long Warner Bros man while Daly, 58, made his name at CBS, the TV network, before moving to Warner Bros as chairman and chief executive in 1981.

Last year, Daly made Semel his co-chairman and co-chief executive. But the two had been working together closely for a decade. They are now so much of a team that, as one newspaper put it last year, they are in the habit of finishing each other's sentences.

Given Time Warner's recent history, this concentration of power seems salutary. It has become a familiar charge that the 1990 merger of Time and Warner has never lived

up to its promise that its extraordinary range of creative assets, from Bugs Bunny to Time magazine, have not been harnessed to a single purpose.

To the extent that this is fair, it owes much to the internecine struggle between the group's divisional chiefs. Blame for that is commonly attributed to Levin, who has been described by his critics as insufficiently diplomatic - or, alternatively, too indecisive - to keep the peace.

There are two objections to that view. First, a series of powerful and egotistical executives have resigned or been fired, and Levin remains in the chair. Second, Turner Broadcasting was an attractive prize, eagerly sought by rival media companies.

The fact that Levin grabbed it suggests that Time Warner is not such a hamstrung organisation after all.

It is also worth recalling that the Time Warner merger was the creation not of Levin but of his predecessor, Steven Ross.

On Ross's death three years ago, Levin inherited a sprawling collection of assets and an immense mountain of debt. Since then, in the words of a senior executive, he has made his job any easier.

The appointment of Remo Cassaro as chief executive of Belleli, the Italian engineering contractor, looks like a rare case of a manager from Italy's sprawling state sector



De Crespigny goes for gold under Normandy's banner

Ten years and one month after he set up in business on his own, using \$500,000 accumulated when working for a Perth accountancy firm, Robert Champion de Crespigny has announced that he is to consolidate his complex stable of listed gold mining companies into one group under the Normandy banner, Kenneth Gooding writes. Analysts reckon his family interests are now worth more than A\$110m (55.8m).

He says investors don't care for the complexities of the present corporate structure, but his main reason for promoting the merger is so that the combined group will have the financial muscle to compete with other international mining companies.

The merged entity will have an estimated market value of A\$3bn (£1.4bn) and rank as the world's eighth largest gold producer, with an annual output of 15m ounces.

Now 46, with a self-assurance often taken for arrogance, de Crespigny has a reputation for being both cautious and hardworking, with a liking for complicated deals that keep the opposition off-balance. In the past ten years there have been many of these. He was spotted early on by Harry Oppenheimer, whose family controls the world's biggest natural resources empire, Anglo American Corporation of South Africa, Da Beers and Minerva. Their association was solidified in 1987 when Anglo merged its Australian offshoot to de Crespigny's Posedon.

De Crespigny says Anglo has been an excellent partner and great supporter. Nevertheless, his latest manoeuvre seems to have caught Minerva, which now holds Anglo's 19 per cent interest in Normandy, off guard. Far from welcoming the proposed merger, which will turn Normandy into something of a competitor, Minerva says firmly that it will wait to see the full terms before commenting.

Cassaro bucks the trend at Belleli

The appointment of Remo Cassaro as chief executive of Belleli, the Italian engineering contractor, looks like a rare case of a manager from Italy's sprawling state sector

being called in to teach a lesson or two to a family-owned company, writes Andrew Hill in Milan.

Cassaro, 55, took over full management control at Belleli last week after 17 years as a senior executive with IRI, the state holding company, and its subsidiaries.

Belleli is a company with turnover of £1.4bn (255m) a year and an international reputation in the heaviest of heavy engineering contracts.

It builds, for example, some of the world's largest tension leg platforms for deep sea oil and gas exploration, as well as nuclear power plants, chemical process units and anti-pollution systems.

But the company has hit serious financial trouble this autumn, following delays in contract payments from the Saudi and Italian governments.

Creditor banks made Cassaro's appointment one of their conditions for backing a restructuring and refinancing of the group, initiating that the Bellelis - who founded the Manthas group in 1947 - should be distanced from day-to-day management.

As a result, Riccardo Belleli, the current chief executive and son of founder chairman Rodolfo, will become the group's deputy chairman.

Cassaro, who was chief executive of Fintecna, IRI's industrial and civil engineering subsidiary, takes over at Belleli just as the situation is beginning to stabilise.

A Mantua court agreed last week to put Belleli under "controlled administration", which gives the group protection from its creditors and banks seem near to approving the refinancing plan.

Havanas galore for Sherritt recruits

It would be a pity if Rupert Penman-Rea and Sir Patrick Sheehy did not enjoy Cuban cigars, writes Bernard Simon in Toronto. The former Bank of England deputy governor and BAT Industries chairman can look forward to a steady supply of the best Havanas, with their appointment to the board of Toronto-based Sherritt International.

De Crespigny says Anglo has been an excellent partner and great supporter. Nevertheless, his latest manoeuvre seems to have caught Minerva, which now holds Anglo's 19 per cent interest in Normandy, off guard. Far from welcoming the proposed merger, which will turn Normandy into something of a competitor, Minerva says firmly that it will wait to see the full terms before commenting.

Sherritt promotes itself as the closest thing there is to a Cuba country fund.

MUSIC

Rumours surrounding the Beatles' unreleased recorded legacy have been circulating ever since their break-up 25 years ago; little wonder that the release tomorrow of *The Beatles Anthology I* (Parlophone) is causing such a stir.

Of immediate interest is the single from the double album, "Free As A Bird", which unites the three remaining members of the band with an old John Lennon vocal track. But there are plenty of nuggets besides, including the complete, and infamous, Decca audition of 1962 which led to the label turning the group down. *Hindsight* is a wonderful thing - now we can decide for ourselves. Then there are the alternative versions of some of their best-known songs: a "heavier" version of "And I Love Her", the Ed Sullivan Show "All My Loving"; the "rattle your jewellery" take of "Twist and Shout" from the 1963 royal command performance. For real fanatics, there are also extracts from rehearsals, false starts and studio experiments which give an insight into the group's creative processes in full flow.

Kent Nagano and the London Symphony Orchestra give a polished performance of Ravel works including the *Valses Nobles et Sentimentales* and the *Rapsodie Espagnole* on the EMI label.

Peter Aspden



Pierce Brosnan as Bond with Famke Janssen as Xenia Onatopp

Ice-ripper.

On video, Atom Egoyan's *Exotica* is a richly realised puzzle-picture about passion and identity set in the fleshpots of Toronto. And if you

want more Zhang after *Triad*, the splendid *Story Of Qiu Ju* and the even more splendid *Raises The Red Lantern* are now available.

Nigel Andrews

MANAGEMENT

Succession planning is normally a civilised affair. Yet few issues present companies with such potential for conflict, ineptitude and procrastination.

At the General Electric Company, for example, speculation about who will replace Lord Weinstock, the 71-year-old managing director, has dragged on for years, causing uncertainty for managers and disaffection among shareholders. Concern about the apparent secrecy and pace of the search came to a head this month with the abrupt departure of one of its directors.

Lord Weinstock is not alone in his reluctance to name a successor. A survey last year of large US companies by Korn/Ferry International, a recruitment consultancy, found that only 34 per cent of chief executives had identified their successors either publicly or privately.

Nor is Lord Weinstock alone in his reluctance to share responsibility for the decision among the entire board. Another Korn/Ferry study found that most chief executives view the successor selection process as a very personal one – most involved the setting up of appointment sub-committees.

Initiatives such as the Vienot report – and the Cadbury report, its UK equivalent – demonstrate that companies are under pressure to introduce greater formality into succession planning. Yet even the best-intentioned companies are finding that succession planning has become a more difficult challenge.

A survey last year by the Conference Board, based in New York, found that nearly a third of companies have significantly altered their succession planning processes within the last few years.

One reason is that the skills needed by a top executive are, in many cases, more demanding than in the past. Smaller boards and a reduction in the number of tiers of management have concentrated responsibility in the hands of the chief executive. The scope for decisive action has been heightened by technological change, international expansion and intensifying competition. Yet at the same time the new emphasis on teamwork and empowerment sometimes requires leaders to adopt a more subtle coaching style.

Another issue – highlighted in the Conference Board report – is organisational restructuring. As companies have introduced flatter structures, they have found it more difficult to give rapid promotions to promising employees. The old practice of sending high-fliers abroad to staff foreign operations and gain early responsibility has given way to the recruitment of local managers. The devolution of individual business units has created added difficulties for companies wanting to map out a varied career path for their staff.

Paul Allaire, chairman of Xerox, admits to struggling with this problem. "If you diminish the role of middle managers how do you ensure that you have a cadre of people with the right experience to choose the top management from? How do you pick people and train them?"

Certainly, many of the old truisms about climbing the greasy pole are no longer valid.

Despite many exceptions – such as Cedric Brown of British Gas and Sir Richard Greenbury of Marks and Spencer – the old notion that a hardworking school leaver could enter the ground floor of a company and rise to the chief executive or chairman's suite on the top is increasingly outdated.

Indeed, company loyalty is among the most threathable of the old principles of succession. More than ever before, the top job is likely to go to an executive who has no prior knowledge of the company or its industry. Even companies with a long tradition of "growing their own timber", such as the Prudential, Barclays and ICI, have recently opted for outsiders for their top job.

Admittedly, the trend should not be exaggerated. In some businesses, graduates still

Authoritarian structures may be corrupting sound succession planning, reports Vanessa Houlder

Alternative routes to the executive suite



have a good chance of rising to the top. Niall FitzGerald, just appointed next chairman of Unilever's UK arm, has been with the company since university.

Overall, some 20 per cent of the largest UK companies choose external candidates for their top jobs, according to a Korn/Ferry survey. Smaller companies – those with turnovers of less than £1bn – are significantly more likely to look outside their own ranks.

As companies break new ground in their choice of executives, they are re-evaluating the elaborate, formal succession planning procedures that have evolved over decades. These procedures keep track of high-fliers, who are then given the most challenging job assignments and most extensive training. In many businesses, shortlists are prepared of two or more potential successors for every position which is to become vacant within five years.

But the detail and complexity of this process is increasingly inappropriate for organisations undergoing significant change. "Some organisations are turning away from conscious succession planning because it is too complicated, when so much is changing," says Linda Holbeche of Roffey Park, a management institute in West Sussex. "People's experience is that succession plans broadly do not work."

This, for example, was the experience of Bank of America after undergoing frequent reorganisations because of acquisitions.

More than 80 per cent of the 1,000 people tracked by its succession planning had left the organisation six years later, according to the Conference Board.

Many companies trying to create a more open and diverse culture are also uncomfortable with the notion of detailed succession planning. All too often, selecting high-fliers appears elitist, discriminatory and paternalistic. Increasingly, companies are trying to put responsibility for the development of people's careers on to individuals themselves.

At one of the UK's biggest drinks companies, for example, the personnel director is scornful of "people making an industry out of career management". "What percentage

of vacant positions are being filled by people

are critical?" he asks. "They are the people who will manage their own careers."

Even those companies that continue to track managers' careers are being forced to be more open and less secretive, as a result of the culture shift away from lifetime employment. If someone knows that they are tipped for the top, it may stop them being poached by other organisations. Alternatively, being candid about someone's job prospects may persuade them to seek other employment.

But aspiring managers take their cue from what happens at the top of the organisation. So the tactics used by companies to select top management are under ever greater scrutiny.

The drive towards greater openness has led to wider use of assessment centres at top levels within an organisation. These sessions, which often involve business simulations and open-ended discussions of strategic issues, are perceived as an objective way of assessing matters such as an individual's willingness to stand up to a chief executive and offer an alternative point of view.

Another relatively clear-cut and open approach is that adopted by Grand Metropolitan, which recently chose its new chairman to follow Lord Shapland and, for the third time in nine years, the disappointed candidate swiftly quit.

Although this horse-race strategy of pitting internal candidates against each other, choosing the winner and promptly parting company with the loser has its attractions, it can lead to an unnecessary loss of talent and create a strife-torn organisation if protracted.

Another popular approach is the relay process, where a new president or chief operating officer is named to work with an incoming chief executive for a period leading up to retirement. It has the advantage that the heir apparent can be further sized up and tends to clear the air early, preempting the usual jockeying for position.

Widening the lens to include outside candidates is, on the face of it, the most transparent, meritocratic method of finding a top executive. Moreover, when a company is in difficulties, there is widespread acceptance of the case for bringing in a chief executive from outside.

Yet the risks of appointing an external candidate can also be high, both for the company and the individual. The external appointee does not know the people, history or circumstances of the business. A clash of management styles and personalities with senior colleagues is relatively common.

Moreover, companies that invariably recruit from outside at senior levels risk demotivating their employees. They may find it more difficult to attract the very high calibre of people on which they rely in the long haul.

They may also find recruitment from outside harder than they expected. "From our point of view there is a shortage of really good top managers," says Nigel Dyckhoff, director of Spencer Stuart, executive search consultants.

Kevin Delany of the human resource group of Coopers & Lybrand argues that companies have unrealistic expectations concerning the recruitment of senior executives from outside. "People have begun to realise there are not pools of talent out there to fill jobs very quickly."

Yet whatever the risks of recruiting at senior levels, it is a trend that is unlikely to reverse. As succession planning becomes more complicated and fluid, both managers and companies may need to explore their options.

And the uncertainty, one clear group of beneficiaries has emerged from the changes to succession planning. According to the Economist Intelligence Unit, the worldwide executive search industry is growing at more than 15 per cent a year. One of the few certainties about career progression is that head-hunters are prospering as never before.

Companies are increasingly urged to take succession planning seriously, by instigating annual reviews by the entire board.

Discussion of this issue is not confined to the US and UK. The search for international investment has put corporate governance on the agenda more widely in many parts of the world.

In France, for example, there has been criticism of the role that nepotism and the old boy network (generally meaning graduates of the elite *cole polytechnique* or the *cole nationale d'administration*) play in securing top positions. "There is not enough commercial experience in many sectors of industry," says Jean-Michel Belgebre, managing partner, France of Accor Group, the executive search group. "The meritocracy is coming slowly."

Critics say that in many companies the monarch-like "president director-general" is considered to rule with unchallenged power. Often the board members are drawn from a circle of external contacts, creating a glass ceiling which prevents employees making it to the top of the group.

Life at your local pub seems more than usually lacking in interpersonal skills, be nice to him. Talk to him. Let him feel he is getting a bit of real-life experience. For he may be a middle manager in the insurance industry, and his night job may be a last-ditch effort to get promoted.

According to Mark Bolteat, the head of the Association of British Insurers, a few months behind the bar is just the thing for all those frustrated managers who are good enough at their jobs but who are somehow failing to advance. What holds them back is not that they are short of knowledge or experience, but that they cannot communicate to save their lives. So when they come to him suggesting a spell at business school to improve their prospects, he points them towards the pub instead.

This is bad news for the business schools. It must be hard enough trying to keep ahead of the competition, but if they are trying to com-

pete with the Coach and Horses too . . .

A week or two ago, I forecast that managers would turn to gardeners for inspiration once they had tired of learning from sportsmen and from actors. This was meant to be a joke, but I should know by now that management is no joking matter.

A reader has drawn my attention to the appropriately named Robert Greenleaf, a retired AT&T executive who long ago said that the best organisational structure is not a pyramid but a garden, which encourages us to live within nature.

It is true that gardening has become well rooted in our business language: we "grow" companies over days more readily than we grow tomatoes. But anyone who thinks that the garden is the image of the benign organisation should think again. Gardens are cruel places in which the dead wood gets cut out, and the living wood is at

the mercy of weeds, slugs and the whims of the gardener. Now that I think of it, it does sound rather like business after all.

Here is an interesting fact: the average business executive spends 60 hours a year on the telephone listening to Greensleeves, or to a recorded voice saying over and over again: "Your call has been held in a queue. It will be answered as soon as an operator is available." Sixty hours is more than a week a year. So if businesses answered their phones at once, everyone would be able to take an extra week's holiday without productivity suffering a bit.

There is a snag. If phones were answered more quickly, companies would have to hire more people to answer them. Sensible businesses know that this would mean more delighted customers and therefore fatter profits, but few seem prepared to make the investment. Instead they have started buying customised tapes that allow you to advertise and promote your company to callers while they hold. Doubtless there is a great market for this kind of thing, but I cannot see it having the desired effect. If so, it is having the desired effect. It is bad enough being put on hold, but

to have a recorded voice telling you how wonderful a company is, when it cannot even be bothered to pick up the phone to serve you, strikes me as downright insulting. Give me Greensleeves any day.

Part-time work is a wonderful thing. It is good for you as it allows you to have a life outside work, and it is good for your employer as it gets better value out of you. And with such abundant demand and supply, it is surely the way of the future.

Last week I went to a conference where I was disabused of these sentimental notions. First, part-time working has only risen by 3 percentage points since 1980. Second, employers do not love their part-timers at all. I heard two bosses complaining about how their part-timers were inflexible, uncommunicative and a damn nuisance, and how they wished they could be shot of the lot of them. And these bosses were not

oldish, backward-looking men in suits, they were right-on women. Indeed, part-time work seems to have such a bad name that progressive employers now avoid using the label full and part time, and prefer to talk about high and low basic hours. Now I feel really depressed. I am happy to be called part time, but can see nothing nice about being either "now" or "basic".

Which group of managers enjoys its jobs most? The answer, according to a survey published today by the Institute of Management, is management consultants. This sounds too good to be true, but it is true. The survey also shows that the survival strategy adopted by companies during the recession has left their managers feeling insecure about their prospects, their finances and their workloads. Who was it who designed those plans in the first place? Management consultants.

FAST TRACK

Hutchison Mobilfunk

When René Obermann set out as a 23-year-old to earn the DM1,300 (2500) a month he needed to survive as a student, management issues were not at the forefront of his mind.

His plan to market personal telecoms equipment aggressively at a time when such products in Germany were still being sold conventionally was potentially risky.

After all, despite being one of the world's most advanced economies, Germany's telecoms market has until recently shown few signs of dynamism.

But what started, in Obermann's words, as a "small and friendly service" has since been bought by Hutchison Telecom, the Hong Kong-based telecoms group, and turned into Hutchison Mobilfunk, one of Germany's leading mobile phone service providers.

Annual turnover is now about DM230m and Obermann has about 100,000 customers. In order to keep up with the competition in the fiercely contested mobile phone market, Obermann has had to react with management tools which are not usually compared with the usual German approach.

The workforce of about 200 is on first-name terms, an informality rarely seen in German companies.

Furthermore, where Obermann used to be able to deal with clients' complaints personally, Hutchison now has a customer retention unit which tries to persuade dissatisfied clients to stay with the company rather than change to one of the 10 competing mobile phone service providers.

Another three people work in a fraud prevention unit, where they have to decide within hours whether or not to cut off a mobile phone user who might be running up five-figure bills without any means of paying them.

In an effort to differentiate Hutchinson Mobilfunk from the competition, the company has invested in a full-scale service department in Münster where technicians are able to repair defective phones on average within two days.

Meanwhile, the Asian way of doing business is coming to the fore at the Münster headquarters. Obermann used to have few misgivings about mentioning the company's turnover. Now such figures are strictly confidential, according to Hutchinson internal guidelines.

While he also liked to refer to himself as a *Mittelständler* – part of the network of smaller, family-owned companies which make up 80 per cent of German industry – Obermann now talks about the *Konzern* referring to the Hutchinson Whampoa conglomerate. With the resources of such a group, Obermann and the group's European management have to decide within the next 12 months how to expand.

Ultimately, however, Obermann insists that the key to success in the mobile phone market is service. "There is little to differentiate in hardware," he says referring to the sort of services offered by competing mobile phone service providers. "But in soft terms you can make a big difference and that means keeping those promises. We know that we cannot keep them all but we have to try to keep around 95 per cent."

Michael Lindemann

Promotions in the last-chance saloon

Life at your local pub seems more than usually lacking in interpersonal skills, be nice to him. Talk to him. Let him feel he is getting a bit of real-life experience. For he may be a middle manager in the insurance industry, and his night job may be a last-ditch effort to get promoted.

According to Mark Bolteat, the head of the Association of British Insurers, a few months behind the bar is just the thing for all those frustrated managers who are good enough at their jobs but who are somehow failing to advance. What holds them back is not that they are short of knowledge or experience, but that they cannot communicate to save their lives. So when they come to him suggesting a spell at business school to improve their prospects, he points them towards the pub instead.

pete with the Coach and Horses too . . .

LUCY KELLAWAY



to have a recorded voice telling you how wonderful a company is, when it cannot even be bothered to pick up the phone to serve you, strikes me as downright insulting. Give me Greensleeves any day.

Part-time work is a wonderful thing. It is good for you as it allows you to have a life outside work, and it is good for your employer as it gets better value out of you. And with such abundant demand and supply, it is surely the way of the future.

Last week I went to a conference where I was disabused of these sentimental notions. First, part-time working has only risen by 3 percentage points since 1980. Second, employers do not love their part-timers at all. I heard two bosses complaining about how their part-timers were inflexible, uncommunicative and a damn nuisance, and how they wished they could be shot of the lot of them. And these bosses were not

oldish, backward-looking men in suits, they were right-on women. Indeed, part-time work seems to have such a bad name that progressive employers now avoid using the label full and part time, and prefer to talk about high and low basic hours. Now I feel really depressed. I am happy to be called part time, but can see nothing nice about being either "now" or "basic".

Which group of managers enjoys its jobs most? The answer, according to a survey published today by the Institute of Management, is management consultants. This sounds too good to be true, but it is true. The survey also shows that the survival strategy adopted by companies during the recession has left their managers feeling insecure about their prospects, their finances and their workloads. Who was it who designed those plans in the first place? Management consultants.

Michael Lindemann

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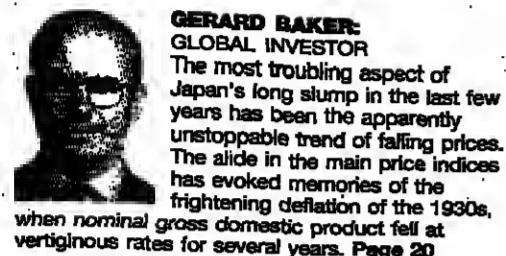
FINANCIAL TIMES

COMPANIES & MARKETS

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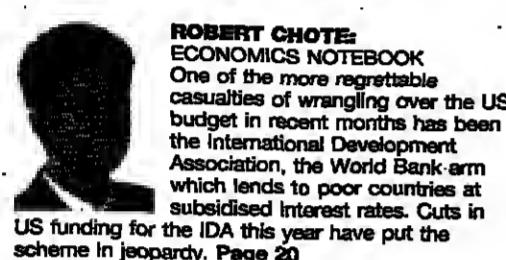
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MARKETS THIS WEEK



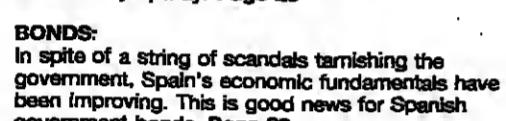
GERARD BAKER: GLOBAL INVESTOR

The most troubling aspect of Japan's long slump in the last few years has been the apparently unstoppable trend of falling prices. The slide in the main price indices has evoked memories of the frightening deflation of the 1930s, when nominal gross domestic product fell at vertiginous rates for several years. Page 20

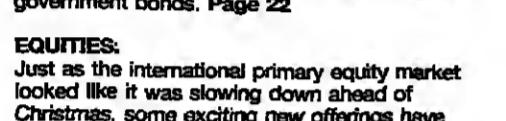


ROBERT CHOTE: ECONOMICS NOTEBOOK

One of the more regrettable casualties of wrangling over the US budget in recent months has been the International Development Association, the World Bank arm which lends to poor countries at subsidised interest rates. Cuts in US funding for the IDA this year have put the scheme in jeopardy. Page 20

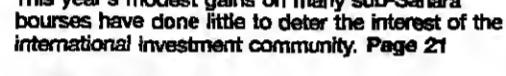


BONDS: In spite of a string of scandals tarnishing the government, Spain's economic fundamentals have been improving. This is good news for Spanish government bonds. Page 22



EQUITIES:

Just as the international primary equity market looked like it was slowing down ahead of Christmas, some exciting new offerings have popped Page 23



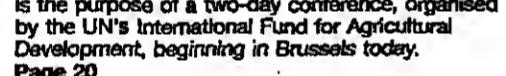
EMERGING MARKETS:

This year's modest gains on many sub-Saharan bourses have done little to deter the interest of the international investment community. Page 21



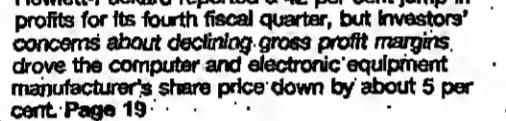
CURRENCIES:

Sterling is likely to be centre stage this week with market nerves set to become frayed in the run-up to the UK Budget on November 28. Page 21



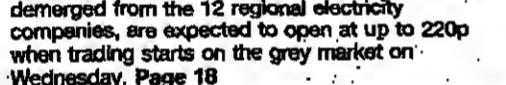
COMMODITIES:

The development of a co-ordinated strategy to ease the plight of the world's 800m hungry people is the purpose of a two-day conference, organised by the UN's International Fund for Agricultural Development, beginning in Brussels today. Page 20



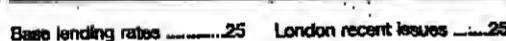
INTERNATIONAL COMPANIES:

Hewlett-Packard reported a 42 per cent jump in profits for its fourth fiscal quarter, but investors' concerns about declining gross profit margins, drove the computer and electronic equipment manufacturer's share price down by about 5 per cent. Page 19



UK COMPANIES:

Shares in the National Grid Group, which is being demerged from the 12 regional electricity companies, are expected to open at up to 220p when trading starts on the grey market on Wednesday. Page 18



STATISTICS

Bank lending rates 25 London recent issues 25 Company meetings 10 London share service 28-29 Dividend payments 10 Managed fund service 26-27 FTSE & FT World Indices 20 Money markets 23 FT Guide to currencies 21 New int'l bond issues 22 Foreign exchanges 25 New York shares 30-31 World stock mkt indices 24

MARKETS

THIS WEEK

By Hugh Carnegy in Stockholm

Sweden's Wallenberg industrial empire said yesterday it was in close contact with General Motors of the US about the future of Saab Automobile following the Swedish car maker's recent dramatic return to heavy losses.

"We are worried about the situation. We are discussing with GM what to do about it," said Mr Claes Dahlblom, chief executive of Investor, the main Wallenberg holding company which is the joint owner of Saab with GM.

Saab suffered earlier this week it had lost SKr22m (\$48.4m) in the third quarter, wiping out the company's profits in the first six months and leaving it with a nine-month loss of SKr11m between 1988 and 1991.

The reverse, blamed largely on adverse currency movements, dispelled the optimism created last year when Saab achieved its first full-year profit since GM bought a 50 per cent stake and took over management control in late 1989.

"It is not just a question of the currency effect," Mr Dahlblom

said. "The volumes of car sales seem to be too low to get a sustained, acceptable profit level."

He said spending on marketing and new models were among the questions to be addressed, but he refused to elaborate further.

Investor assumed direct ownership of the Wallenberg share of Saab Automobile earlier this year when it split up Saab-Scania into its main constituent parts.

There has since been speculation that Investor, which is chaired by Mr Peter Wallenberg, might seek to sell its 50 per cent holding to GM. Both owners have together sunk more than SKr15m into Saab Automobile in the past five years, as well as suffering accumulated losses of SKr11m between 1988 and 1991.

Some analysts believe Investor will be reluctant to sink more capital into the company, which is likely to be required if Saab is to make the heavy investment it needs to broaden its narrow model range and achieve higher volumes. This year it is likely to sell about 100,000 cars.

However, the Wallenbergs have

a record of loyalty to companies they have long been associated with and may be reluctant to admit defeat.

Mr Dahlblom was speaking after unveiling a sharp increase in pre-tax profits at Investor in the first nine months from SKr2.3bn to SKr3.3bn. Investor groups shareholdings in a series of Swedish blue-chips, including Astra, the pharmaceuticals company, Electrolux, Ericsson and the forestry group Stora.

But the main profit engine was Scania, the heavy truck maker which is wholly owned. Scania profits after financial items rose from SKr2.4bn to SKr3.5bn in the first nine months. Saab aircraft, the other main wholly-owned Investor company, increased profits after financial items from SKr1.6bn to SKr2.2bn.

Investor intends to float up to 75 per cent of Scania, possibly early next year.

Investor's net worth at the end of September was SKr52.5bn, or SKr265 per share, compared with SKr45.5m at the end of last year.

Peter Wallenberg, Investor chairman, whose group may sell its stake

Wallenberg in talks with GM on Saab



Pechiney sell-off raises concern

By John Riddick in Paris

A sharp fall in the price of Pechiney's investment certificates and signs of weak demand have raised concerns about the privatisation of the French aluminium and packaging group.

Mr Jean Attali, the French finance minister, said on Friday he had no plans to suspend the sale, which was started last week with the launch of pre-marketing. During this period, which is expected to last a few weeks, public investors can make non-binding reservations for shares in the group.

Initial interest, however, has appeared weak. This partly reflects the poor performance of recent French privatisation issues, most of which are trading at a sharp discount to their issue price. Investors are also wary of the cyclical character of Pechiney's markets, and the downturn in aluminium prices.

Of immediate concern for the French government is the decline in Pechiney's non-voting investment certificates which have fallen almost 20 per cent since the announcement of the forthcoming privatisation. The fall has taken the investment certificates close to the floor of a guideline share price range for institutional investors issued by the government.

Mr Attali has said that the FF187 to FF215 per share price range is non-binding and is intended only as an indication.

However, he has previously said the French government would not sell state corporate assets at a significant discount to their estimated value. At last Friday's closing price of FF207, the investment certificates were only slightly higher than the floor level, given proposed exchange terms of 1.1 share for each certificate.

The sale of Pechiney, in which the French government has a 56 per cent stake, is expected to be the last big privatisation operation of the year. It is important in maintaining momentum in the conservative government's sell-off programme.

Analysts in Paris said the government would wait to see the development of demand for Pechiney shares and said that a strong rally in the stock market, which has gained almost 10 per cent over the past three weeks, could improve investor sentiment.

C&W chairman may be forced to retire early

By Alan Cane and Peggy Hollinger in London

Lord Young, executive chairman of UK-based telecoms group Cable and Wireless, could be forced to step down earlier than he recently announced after a crisis meeting of non-executive directors today.

The meeting followed an acrimonious dispute between Lord Young and his chief executive, Mr James Ross, over the direction the company was taking. The two men now find it almost impossible to work together and the non-executive directors have been seeking a compromise.

Last week Mr Ross rejected a proposal under which he would have resigned in three months while Lord Young remained in his post until February 1997. It is possible

that if today's meeting is not resolved to Mr Ross's satisfaction, he will resign immediately.

The non-executive directors will consider a fresh proposal, championed by four of the executive directors, that Lord Young should retire at the end of the financial year in March. Mr Ross would stay in his post for a further two to three years to see through the strategy of focusing on the Far East, Europe and North America, which he has been working on since arriving at the group in 1992.

The dispute became public after concern from institutions over C&W's frequent departures from this strategy, in particular that management has been distracted by a plethora of small deals in areas which have proved difficult to control and work together.

Lord Young has been trying to do things with outside partners and things keep coming in from left field," said one director.

It has been apparent for many months that the conflict was generating unease in the company. The non-executive directors are thought to have decided initially that, after five and half years at the helm, it was time for Lord Young to go.

However, Lord Young was reluctant to step down. The non-executives then opted for a compromise package involving the

early departure of Mr Ross, and the retirement of Lord Young on his 65th birthday.

Last week Mr Ross rejected this package, arguing it would damage C&W at a time of delicate negotiations, including a possible US deal with Nynex, the New York local telecoms operator.

The executive directors, irritated that so far they have had little part in the negotiations, will meet non-executive directors this morning. They will stress the difficulty of managing a company with an outgoing chairman and a chief executive whose future is uncertain. "If the situation drags on for 15 months, it will drive C&W into the sand," one director said.

The non-executives will meet in the afternoon to discuss their concerns and are expected to hear Lord Young's views.

Unibanco to acquire Brazilian rival's assets for \$1bn

By Angus Foster in Sao Paulo

Unibanco, the Brazilian bank, is to buy the assets of a main rival, Banco Nacional, to create one of Latin America's largest private sector banks. The combined bank will have net assets of about \$2.5bn and total assets of more than \$24bn, making it Brazil's second biggest private sector bank.

The takeover was agreed on Saturday after Brazil's central bank took special administrative control of Nacional, which has been suffering heavy withdrawals and liquidity problems. The

central bank appeared to have acted to force the hands of Nacional's controlling shareholders, which had been discussing a merger with Unibanco but had failed to agree a price.

Nacional is due to open normally this morning and central bank president Mr Gustavo Loyola assured customers there was no reason for alarm. "Nothing changes on Monday," he said.

Mr Tomas Zinner, president of Unibanco, said the bank paid "about R\$1bn (US\$1.04bn) for Nacional's retail banking and international operations. He said the purchase would give the

expanded bank greater scale and more clients.

Nacional's investment banking and insurance operations will remain under central bank administration and are expected to be sold shortly. Analysts say Unibanco may dispose of up to 100 of Nacional's 355 branches to avoid overlap with its own 453 outlets. Both Citibank and Bank of Boston are thought to be interested in increasing their small branch networks in Brazil.

Nacional's takeover resolves the most serious problem for Brazil's banking sector, which has had to restructure since the new

real currency led to a sharp fall in inflation last year. Banks have been seeking new sources of income now inflationary profits have fallen.

A credit squeeze earlier this year also weakened some institutions and led the central bank to take control or shut several of them. Banco Economico, formerly Brazil's eighth largest private sector bank, was the most spectacular casualty when it was placed under central bank administration in August.

Further banking problems are

expected since most analysts

believe Brazil is over-banked and

credit quality often poor. It has 246 banks, many with few customers, and several large banks are weakened by family rather than professional management.

Nacional and another big private sector bank, Bamerindus, had been the victims of speculation recently. Uncertainty about Nacional's situation last week triggered worries about other smaller institutions.

The central bank, which insists weaknesses lie with certain banks rather than the whole system, has taken steps in recent weeks to help mergers take place.

Analysts in Paris said the government would wait to see the development of demand for Pechiney shares and said that a strong rally in the stock market, which has gained almost 10 per cent over the past three weeks, could improve investor sentiment.

The sale of Pechiney, in which the French government has a 56 per cent stake, is expected to be the last big privatisation operation of the year. It is important in maintaining momentum in the conservative government's sell-off programme.

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COMPANIES AND FINANCE

National Grid shares likely to open at 220p

By David Wighton

Shares in the National Grid Group, which is being demerged from the 12 regional electricity companies, are expected to open at up to 220p when trading starts on the grey market on Wednesday, valuing the company at more than £3.5bn. Although most analysts believe the shares are worth about 200p, heavy buying from institutions is expected to keep the price above that level for some time.

On Friday, it was announced that the National Grid would become a constituent of the FT-SE 100 index as soon as official trading opens on December 11.

As a result, there is expected to be heavy demand from funds which track the index.

One analyst calculates that the main index funds will need to buy about 150m shares to gain a neutral weighting.

There will be particular pressure on the share price because less than half the shares are expected to be in public hands initially.

Of the 12 regional electricity companies which own the Grid, only six are committed to distributing their holdings to their shareholders.

Four - South Western Electricity, Eastern Group, Manweb and Norweb - have been taken over. Their holdings have now passed to their new parents - Southern Company of the US, Hanson, Scottish Power and North West Water - which have agreed to sell their shares within a year.

Southern Electric and Midlands Electricity, which are the

Govett plans UK disposal to AIB

By Peter John

Govett & Co, the international fund manager, is expected to sell its UK arm, John Govett, to Allied Irish Banks within the next fortnight for about £105m.

On Friday the company was awarded about £1m (£200,000) in costs for the first of two cases in a suit which was thrown out of a California Court some months ago.

Assuming the sale goes through AIB will acquire a £4.1bn fund at a price equal to 8.8 per cent of the funds in management.

It would also help Govett to overcome an interesting saga which has caused profits to drop and its share price to fall by 35 per cent. In February, Govett's American Endeavour Fund, a Jersey-registered investment company specialising in mezzanine debt financing in the US, sacked its parent and sued for a catalogue of alleged offences including fraud and negligence.

It claimed Govett and its chairman, Mr Arthur Trneger, used their positions as managers of the Endeavour Fund, to their own advantage and against the interests of AIF.

As a result, the acquisition of the US-based fund management business of Duff & Phelps, had to be shelved. The subsequent publicity meant that Govett's interim profits were halved and the company issued a profits warning for the year.

Govett decided to sell its UK arm and launched a £185m damages suit against Endeavour.

It is also trying to restore its battered stock market credibility. From a price of 350p before the law suit, the shares were trading at 230p on Friday. However, it is believed the price predicted for the sale will match the price Commercial Bank of Germany paid for rival Jupiter Tyndall in March and will give Govett an asset value of about 300p a share.

The proceeds will allow the company to focus on its North American interests.

A need to concentrate the brew?

Roderick Oram on problems facing the Carlsberg-Tetley venture

Most British brewers are of less-than-optimum size given growing concentration among retailers and increasing cross-border competition from the most efficient continental brewers, Carlsberg, the Danish brewer, believes.

"Nobody has made any attempt to stop the concentration of retailers so producers will have to concentrate too," says Mr Michael Iuul, Carlsberg's head of international operations. Being bigger is also critical for UK producers if they are "to stand up to the most efficient continental brewers."

It is no secret in the City, however, that Allied is also seeking buyers for its stake, carried on its books at £250m plus £40m of debt. Bass and Whitbread have shown interest but some analysts consider Carlsberg might be interested in exercising its right of first refusal and take full control.

"It would be sad if Allied decides to exit but Carlsberg is here to stay," Mr Iuul says. "As long as Carlsberg-Tetley is run efficiently and well, I'm not too worried about who the other shareholder is as long as they are entirely professional."

Carlsberg needs to tie up with someone but it will be

than Carlsberg-Tetley.

Mr Iuul declines to comment on how Carlsberg-Tetley could grow or form part of a larger brewing enterprise. Allied says its priority with the joint venture is to improve its performance through a £50m restructuring. Its profits have fallen by about two-thirds since it was formed because of slow integration, loss of market share, a shift to lower margin sales to supermarkets and off-licences and deep discounting in the pub trade.

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Carlsberg needs to tie up with someone but it will be



Michael Iuul: being bigger is critical for UK producers

hard for them to find a partner who will let them keep control," one analyst says.

A number of knotty issues need to be settled if Carlsberg is to secure another partner. The two biggest are brand conflicts between Carlsberg and potential new investors and the supply agreement between the joint venture and Allied.

Analysts believe the issues are so complicated that Allied's exit will be complex. "And whatever happens, Carlsberg-Tetley will require further heavy restructuring," one says.

The agreement expires in December 1997 but profit warranties run two more years. Thus, Allied would want full value for its stake to compensate for the high beer supply price. On the other hand, a buyer would seek a lower price to reflect the drop in the joint venture's profits when the agreement ends.

The pathfinder projection suggests that if the group is expanded to 143 stores by July 1999, profits before interest and tax would be £2.5m on sales of £210.8m.

Neither Mr Northcott nor Mr Giles Clarke, chief executive, will be selling any shares. Mr Northcott, who was a pioneer of DIY retail sheds with Dodge City, and Mr Clarke, who was a co-founder of Majestic Wine Warehouses, each have a 20 per cent stake.

Pearl Assurance overhauls structure

By Alison Smith

Pearl Assurance, one of the two UK subsidiaries of Australian Mutual Provident, is to overhaul the structure of its 4,000-strong sales force and revamp its product range as it seeks to adapt to the harsh and fast-changing environment for life assurance in the UK.

Thousands of Pearl employees will be told today of the plans for "New Pearl" - as the changes are known internally.

The shake-up of the sales force will focus on switching away from a system in which each sales agent covers an individual area.

The Pearl sales force is one of the largest in the life assurance sector, but like other "home service" companies it has suffered from the high costs of its traditional method of doing business, in which

agents go regularly to customers' homes to collect premiums.

The new strategy, devised in conjunction with management consultant McKinsey, is intended to make a virtue out of the different skill levels within the sales force, and to ensure that those with the most experience spend most time in selling instead of in other activities.

As a further move to focus sales agents' activities, a central telephone line will be set up to handle straightforward customer queries, such as changes of address.

At the same time, the product range will be streamlined from 27 products to 12. The new range will be more flexible and include, for example, pre-miums.

The changes will be introduced from early next year.

Pet City will be biggest Aim stock

By David Blackwell

Henderson Crosthwaite Corporate Finance is both adviser and broker to the issue.

In the 52 weeks to July 29 sales were £45.5m and operating profits £100,000. The group ended the period £1.5m in the red after £300,000 of interest and £1.3m of store opening costs, which are written off as they occur.

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There's no stopping at Fiera Milano. One event follows another, punctually and successfully. As always. Over 70 exhibitions and 1.5 million sq. m. of stand space sold every year. 35,000 exhibitors and 2.6 million visitors, with work forging ahead on new pavilions and the refurbishment of existing ones to make them even more functional. If you don't believe us, just look up. The year 2000 is already on its way.

INTERNATIONAL EXHIBITION CALENDAR FROM JANUARY TO JULY 1996

January

19-22 CHIBI '96
International exhibition of gift articles, fancy goods, perfume items, costume jewellery and smokers' supplies

19-22 CART '96
International exhibition of stationery, paper and cardboard products, articles for school and fine arts

24-28 34° SALONE DEL GIOCATTOLIO '96
International Toy Fair
Lecce, South Pavilion

28-30 MIAS INVERNALE '96
International sportswear, sport and camping equipment exhibition

February

9-12 MACEF PRIMAVERA '96
International exhibition of Tableware, Household and Gift Items - Silverware - Gold - Watches

23-25 MIFLOR '96
Floriculture, Plants and Gardening Accessories. International Exhibition
Lecce, South Pavilion

28 Feb. 81° IT '96
3 Mar. International Tourism Exchange

March

4-6 MODA IN
International clothing, textiles and accessories exhibition
Lecce, South Pavilion

13-16 FLUIDTRANS COMPOMAC
15th International biennial exhibition of Power Transmission Systems and Control and Engineering Design Equipment

April

14-17 69° MIPEL
International leather goods market

14-18 EXPO DETERGO '96
Specialist international exhibition of equipment, services, products and accessories for laundry, ironing, dry cleaning and related industries

May

27-31 30° MOSTRA CONVEGNO EXPOCOMFORT
International exhibition and conference of Heating, Air-Conditioning, Refrigeration, Plumbing & Sanitary Installations, Bathroom Fittings

3-6 MIDO '96
International optics, ophthalmology exhibition

4-12 INTERNAZIONALE DELL'ANTICOPIARIO
International Antiques Fair

June

7-11 GRAFTALIA
Exhibition of machinery and materials for the graphics, publishing and electronic publishing industries

7-11 CONVERFLEX
International paper, paper converting and package printing machinery exhibition

22-27 15° INTERBIMMEL
International biennial wood processing machinery and accessories exhibition

22-27 15° SASMIL
International exhibition of components for furniture

July

4-6 ESMA
International knitwear and clothing exhibition

6-9 Lift '96
2nd International exhibition for lifts, related components and accessories - technical press and services

7-10 CHIBIDUE '96
International exhibition of gift articles, fancy goods, perfume items, costume jewellery and smokers' supplies

7-10 CHIRIMART '96
Selling Market of typical craft products

12-14 BORTEC
8th International Cooperation, Development and Investment Exchange

12 MIAS ESTIVO '96
International sportswear, sport and camping equipment exhibition

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COMPANIES AND FINANCE

Hewlett-Packard disappoints

By Louise Kehoe
in San Francisco

Hewlett-Packard reported a 42 per cent jump in profits for its fourth fiscal quarter, but investors' concerns about declining gross profit margins drove the computer and electronic equipment manufacturer's share price down by about 5 per cent. HP's results were above Wall Street expectations. Net earnings for the quarter ended October 31 were \$675m, or \$1.29 a share. This compares with earnings of \$477.5m, or 92 cents a share, in the same quarter last year. Revenues for the quarter jumped 29 per cent from \$7bn to \$9bn. Orders were up 27 per cent at \$8.8bn.

HP attributed much of its growth in the quarter to strong sales of personal computers, printers and multi-user computers. HP's recent entry into the US home computer market has boosted its PC sales significantly, analysts noted.

The company increased PC shipments nearly four-fold during the third calendar quarter, according to International Data, a market research group. It estimates that HP shipped 365,000 PCs during the quarter, enabling it to leap-frog Dell Computer and Gateway 2000 to

COMPANY PROFILE:

Hewlett-Packard

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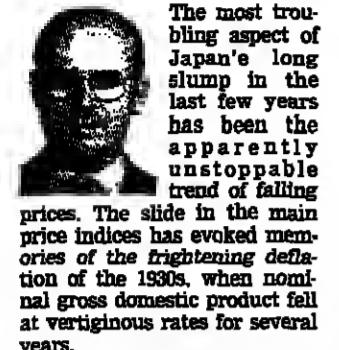
FINANCIAL TIMES

MARKETS

THIS WEEK

Global Investor / Gerard Baker in Tokyo

A time for the customer to benefit



The most troubling aspect of Japan's long slump in the last few years has been the apparently unstoppable trend of falling

prices. The slide in the main price indices has evoked memories of the frightening deflation of the 1930s, when nominal gross domestic product fell at vertiginous rates for several years.

Though a repeat performance on that scale is most unlikely - not least because the authorities now seem rather more aware of the risks - the prospect of further falls in the price level unnerves investors. They see in it not simply the continuing implosion of asset values but also enormous potential damage to corporate profitability. It may not be a 1930s scenario of classic Keynesian deflation, but falling prices still eat away inexorably at corporate margins.

So as Japan looks set to record its third successive quarter of declining nominal GDP, how big are the risks?

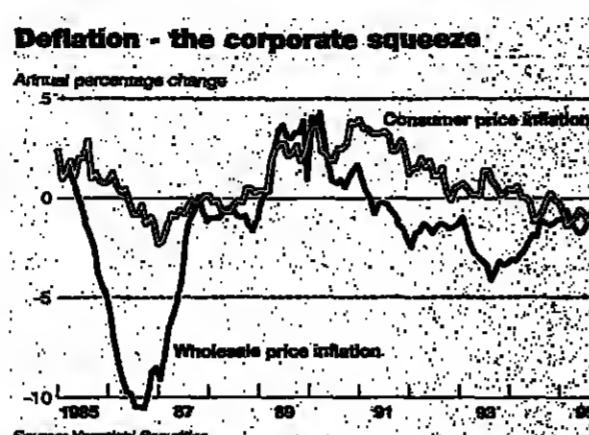
Official figures suggest prices in the shops have been just about flat for more than a year, but there is plenty of reason to believe they understate deflation. The basket of goods

from which prices are calculated has failed to pick up the significant substitution that has occurred - almost a revolution for Japan - in the last few years.

For example, two years ago, that internationally-recognised economic yardstick, the Big Mac, cost more than ¥350 in Tokyo. Today it costs ¥280. Yet the changing patterns in consumer behaviour that has wrought - in essence less sushi, more burgers - have clearly not been properly reflected in the figures. More reliable estimates suggest prices are falling at a rate of about 2-3 per cent a year.

Some very steep declines in import costs lie behind the fall. Wholesale prices have been in negative territory for more than three years, pushed there largely by the rising yen.

Deflation at the wholesale level, however, is nothing new. In the last ten years there have only been 26 months when wholesale prices have actually been rising. As a nation that imports almost all its raw materials and much of its food,



the last decade deflation has been almost wholly benign for Japan as it has been from improving terms of trade. But on the whole those benefits have gone into company margins and not the consumer's pocket.

Contrast that with how wholesale and consumer prices have behaved in the last two years. Input prices have been falling at a much slower rate

In other words, for most of

Richard Mooney

COMMODITIES

UN seeks strategy on hunger

The development of a co-ordinated strategy to ease the plight of the world's 800m hungry people is the purpose of a two-day conference beginning in Brussels today.

The UN's International Fund for Agricultural Development, which is organising the event, is concerned that too little is being done to capitalise on the many successful community projects promoted by non-governmental organisations (NGOs).

"Hundreds of outstanding programmes throughout the

world have delivered astonishing results in terms of drastic eradication of poverty at local levels," says Mr Fawzi Al-Sultan, IFAD president, "but little has been done to analyse them and replicate them on a large scale in a direct offensive for the complete eradication of poverty".

IFAD hopes that its conference will help to make donor governments more aware of the work of the NGOs and more willing to take them up on a wider scale and with increased funding.

waste paper markets; and Jakarta is also the venue for the four-day Mining Indonesia '95 conference and minerals recovery exhibition, which begins on Wednesday. The event is organised by PT Pamerindo Bumi Abadi and hosted by the Indonesian Mining Association.

On Thursday, in Santiago, the Chilean capital, the International Copper Study Group begins its six-day general session, which coincides with the Copper '95 symposium, also in Santiago.

It is a first serious attempt," says Mr Al-Sultan, "to merge the two agendas into one strategy for fighting hunger and poverty."

Other events this week are expected to include the signing in Moscow today of an agreement between Russia and Australia to form links between the former's ailing aluminium industry and the latter's alumina (aluminium oxide) suppliers.

Tomorrow sees the opening, in Jakarta, of a two-day conference on the wood pulp and

paper industry.

THE EUROPEAN WARRANT FUND

Société anonyme d'investissement
European Bank & Business Centre
6, route de Trèves
L-2633 Senningenberg
R.C. Luxembourg 832 792

Notice is hereby given that an

Extraordinary General Meeting

of shareholders of The European Warrant Fund ("the Corporation") will be held at the registered office 6, route de Trèves, Senningenberg, on 30th November 1995 at 3 p.m. to resolve on the following agenda:

1. To decide pursuant to article 110(1) of the law of 30th March 1988 on collective investment undertakings to convert the Corporation into a société d'investissement à capital variable (SICAV) and to make consequential amendments to the articles of incorporation of the Corporation, all such amendments to become effective on 2nd January 1996, namely to amend

Article one, which shall contain a reference to the status of "société d'investissement à capital variable".

Article five, in which the two first paragraphs shall refer to the minimum capital prescribed by law and to the initial net assets of the Corporation at incorporation, and in which all references to warrants issued by the Corporation shall be deleted in the third, fourth, ninth and last paragraph.

Article six, in which all references to warrants, warrant certificate(s) or warrant holder(s) shall be deleted.

Article seven, which shall be replaced by the following:

"The Board of Directors is authorised without limitation and at any time to issue further shares at the Net Asset Value per share determined in accordance with article twenty-two hereof without reserving to existing shareholders a preferential right to subscribe for the shares to be issued."

Article eight, which shall be amended by deletion of all references to warrants and warrants and by deletion of the following full sentence:

"The Board of Directors or such designee may also require, as a condition to exercise of any warrant that the owner thereof certify that such exercise is not made by or on behalf of, or with a view to transfer to, a U.S. person."

by defining in paragraph C 2) the purchase by reference to the redemption defined in article twenty and adding the subsequent sentence the words "For such purpose".

Article fifteen, which shall be amended by the addition thereto of provisions regarding investment policy and restrictions required or permitted by articles 40, 43 and 44 of the law of 30th March 1988 on collective investment undertakings and adding in the last paragraph of such article after the words "to officers of the Corporation" the following: "or other contracting parties".

Article twenty shall be amended to provide for mechanics in redeem shares issued by the Corporation.

Article twenty-one shall be deleted.

Article twenty-two shall be amended in that:

in the first paragraph the words "once a month" are replaced by "twice a month".

the provisions relating to the suspension of the net asset value calculation are completed by adding thereto the following:

"(c) the existence of any state of affairs which constitutes an emergency as a result of which disposals or valuation of assets owned by the Corporation would be impracticable;

(d) any period when the Corporation is unable to repatriate funds for the purpose of making payment on the redemption of its shares or during which any transfer of funds involved in the realisation or acquisition of investments or

payments due on subscription or redemption of shares cannot in the opinion of the Directors be effected at normal rates of exchange;

(e) while the calculation of the net asset value of collective investment schemes, in which the Corporation has invested a material amount, is suspended, or if in the opinion of the Directors, the turbulent market circumstances to dictate:

Any such suspension shall be notified to investors requesting issue or redemption of shares by the Corporation at the time of application for issue or redemption and shall be published by the Corporation if in the opinion of the directors it is likely to be material."

and by completing the valuation rules set forth in subparagraph A by rules providing for valuation of shares or other units to other collective investment schemes will be valued at their respective bid price and of all other assets at their respective fair values, and by deletion of the second last paragraph of such article.

Article twenty-four shall be amended to provide for mechanics of issues of shares by the Corporation at a price based on their net asset value.

Article twenty-six shall be amended to provide for the possibilities of distributions authorised by article 31 of the law of 30th March 1988 on collective investment undertakings.

2. To further amend article 25 of the Articles of Incorporation to provide for the accounting of the Corporation to terminate on the 30th April in each year and the 1st paragraph of article 10 of the Articles of Incorporation to provide for the annual general meeting to be held on the 22nd September at 10 a.m. in each year.

3. To accept the resignations as directors of Messrs Leonard Ingram, Hugh Twiss, Friedrichs von Münster and Yves Prostes and to elect as further directors Messrs Paul Bannister, Anthony Doggett, Iain Saunders and Paul Roberts.

Pursuant to article 10(1) of the law of 30th March 1988 on collective investment undertakings there is no quorum requirement for the vote on the changes to the articles provided in item 1 of the agenda in order to convert the Corporation into a società d'investimento à capital variable. The resolution on item 2 of the agenda can only be taken by the shareholders if 50% of the shares outstanding are represented at the meeting. The decision to make such changes to the articles must be taken at a majority of 2/3 of the shares represented at the meeting.

There is no quorum requirement for the third item on the agenda and the decision may be taken by a simple majority of the shares represented in the meeting.

In order to be able to attend the meeting, holders of bearer shares must deposit their bearer share certificates five days prior to the meeting with the following institution:

Kreditbank S.A., Conservation Tires
43, boulevard Royal, L-2955, Luxembourg

Proxy form containing the full text of the amendments to the articles of incorporation are available at the registered office and will be mailed to shareholders upon request. Proxies should be returned to the fastest on the date preceding the meeting to the Corporation, c/o Fleming Fund Management (Luxembourg S.A.) Luxembourg, at 6, route de Trèves, L-2633 Senningenberg.

By order of the Board of Directors: HENRY C. KELLY, Secretary

November 1995

FLEMINGS

At Home in Emerging and Capital Markets

ING BANK

Tel: 44-71-2245000 FAX: 44-71-224520

up 27 per cent on last year - albeit from a very low base.

More importantly, the figures suggest the extra profits reflect higher margins, not higher sales. This impressive performance in unfavourable price circumstances suggests that companies at last seem to be reaping the benefits of their oft-derided restructuring efforts.

Contrary to popular belief, labour costs in Japan are remarkably flexible. Though big businesses do not generally lay off workers, they are still able to keep a tight rein on individual remuneration. And by cutting recruitment and accelerating severance, they have also been able to reduce overall wage costs.

Restructuring has of course involved other, more dramatic responses, most notably "hollowing out" - the shift of manufacturing capacity offshore - which is continuing apace.

A stiff bout of domestic deflation may even have proved a blessing in disguise: it was shortly after companies enjoyed those fat margins in the mid-1990s that they succumbed to the excesses that ultimately produced the current slump.

Their employees may be substituting Big Macs for sushi, but Japanese companies themselves are beginning to look much leaner.

entire replenishment. About \$10bn is expected from the repayment of past loans and funds carried over from IDA-10. This leaves a net funding requirement of \$14bn, which would require a US contribution of about \$1bn a year. But President Clinton's representative at the Luxembourg meeting told his colleagues that it was impossible to say when the US would decide its contribution, let alone what size that contribution might be.

So the other IDA donors face a challenge. They have to decide whether to take what one senior official describes as a "leap of faith", by guaranteeing to provide money ahead of any firm commitment from the US. It appears that most countries would in principle be prepared to do this, although the devil will be in the details. One possibility would be the creation of a parallel funding mechanism for IDA projects, to which the US would not contribute and from which US companies could not benefit in terms of procurement contracts. There was a precedent for this sort of arrangement in the mid-1980s, although there is a danger that creating an impression that the US is being "punished" by the other donors could be counterproductive in the longer term.

The IDA deputies will reconvene in Paris next month, with the hope of reaching agreement on a way to take the scheme forward with the US unavoidably on the sidelines. The World Bank is conscious that delay increases the possibility of a serious shortfall, which could have damaging negative fallout in the countries concerned. Mr James Wolfensohn, the World Bank president, is in Germany this week and will no doubt use the opportunity to twist some arms on IDA's behalf.

The World Bank estimates that planned IDA projects will require funding of about \$24bn in the three years of the eleventh replenishment, covering the period from July 1996 to June 1999. Government officials from most of the 35 or so donors to IDA met in Luxembourg on Friday and Saturday to discuss the prospects - and they were unable to come up with any clear answers.

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EMERGING MARKETS: This Week

The Emerging Investor / Joel Kibazo
A new scramble for Africa

Institutions are determined not to be left out in a new 'scramble for Africa'. The investments appear to be the next stage in a love affair with the continent that started two years ago. International investors were looking for ways to diversify their portfolios as they started facing up to the prospect of lower returns in more mature markets.

The launch today by Baring Asset Management of a new fund to invest in Africa is a sign that this year's modest gains on many sub-Saharan bourses have done little to deter the interest of the international investment community.

The 'Simba' portfolio, a closed-ended fund capped at \$100m for five years is to be listed on the London Stock Exchange. Most of its investments will be in South Africa but BAM said there would be investments in nine other sub-Saharan countries, as well as Morocco, Egypt and Tunisia.

BAM already has about \$120m of its managed funds in other investments in Africa.

The new fund is part of a growing list of portfolios dedicated to investment in Africa. Last week, GT Management, the UK fund management group, launched its own \$75m open ended Africa fund.

GT is already one of the biggest investors with about \$500m under management in African equities and bonds. It believes that, in addition to

potential investments in infrastructure and financial sectors, areas such as horticulture, tourism and mineral resource are ripe for investment.

Mercury Asset Management is joining forces with Sanlam, the South African life assurance centre conglomerate to launch a fund investing in southern Africa. It will initially

as well as finance and infrastructure, areas such as horticulture, tourism and mineral resource are ripe for investment

concentrate on South Africa but plans to make small investments in Zimbabwe and Ghana.

The new interest in the continent, seemed to be justified when last year markets such as the Nairobi stock exchange (NSE) registered a gain of 178 per cent in dollar terms, while Zimbabwe's market rose by 38 per cent, and Ghanaian stocks surged by 66 per cent. The market had risen sharply ahead of its being opened to international investors in January.

His figures also show that the Harare stock market rose by 147 per cent, but the Accra market was flat.

Analysts have blamed several factors for this year's slowing including continuing liquidity problems and general profit-taking. There has also been what has come to be called the 'Mexico effect', caution on some emerging markets following last December's falls on Mexico's exchange.

Yet both analysts and investors have not been put off by this year's more modest trend

tenth largest in the world towards all others on the continent, grew by 12 per cent, as global interest in the 'new' South Africa continued.

The sharpest increase in the rest of the region has come from the Abijan stock market, capitalised at \$800m. It rose by 85 per cent in dollar terms, with analysts suggesting it was left behind in last year's surge due to poor local research, and limited domestic institutional investment.

However, gains from other markets have been far from spectacular. According to statistics compiled by Mr Christopher Hartland-Peel, an African markets research specialist formerly with the International Finance Corporation, in the 10 months to October 1995, the NSE fell by 37.8 per cent. The market had risen sharply ahead of its being opened to international investors in January.

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Yet both analysts and investors have not been put off by this year's more modest trend

and believe this is the right time to invest in Africa.

Mr Hartland-Peel says: "This is a more realistic level at which to invest in Africa. The froth has gone and one can now assess the fundamentals more clearly."

"A lot of the gains last year were from low volumes which made it difficult for institutions

to attract a greater slice of funds flowing to other emerging markets.

It is planned to market investment opportunities on the African exchanges collectively to international investors and launch a cadre scheme to train analysts and brokers, in which South Africa will take the lead.

African bourses are also to monitor their performance on issues such as settlement and clearing, comparing their performance with that of other emerging markets.

Mrs Cynthia Valianti Corbett, London-based head of structural finance at Standard Bank of South Africa, attended the meeting and says: "People operating in these markets are beginning to be realistic. Talk of grand schemes is gone and many have realised they have to walk before they can run."

"There is now more talk of how to introduce settlement procedures, deregulation, computerisation and the like."

However even those which have started investing in Africa believe a lot more change is needed. Mr John Legat of GT Management believes African markets will grow faster if countries in the region establish mutual funds and also start an institutional pension fund market.

African Equities, by Christopher Hartland-Peel, will be published by Euromoney Books in December 1995.

international investors to go into those markets," says Mr John Neipold, US portfolio manager at Emerging Markets Management in Washington.

In spite of such confidence, there remain problems of liquidity, poor dealing systems, and continuing exchange controls in some countries including South Africa.

However, the recent African Stock Exchange Association meeting in Mauritius committed itself to a three point plan.

It was put forward in what appears a determined effort to address the concerns of the international investors and

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WORLD BOND MARKETS: This Week

NEW YORK

Richard Waters

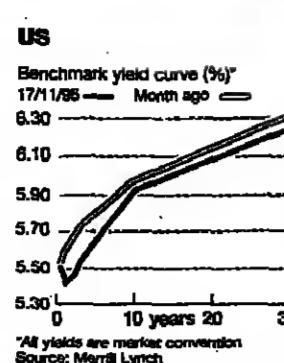
With two large Treasury auctions early in the week, the Thanksgiving holiday towards the end of it and no new economic data, the US markets seem unlikely to make much headway in the coming days.

The one force that could propel long-dated bonds further ahead is a break in the impasse in Washington's budget debate, but few traders were holding their breath for that at the end of last week.

It was a set of weak economic numbers and enthusiastic buying by foreigners - rather than any signs that Congress and the president would agree on a way to balance the budget - that helped drive the yield on the 30-year bond down to 6.23 per cent by Friday.

Both today's auction of \$15bn of three-year notes and tomorrow's \$13.5bn sale of 10-year paper will weigh heavily over the market during the quiet holiday week.

Meanwhile, the partial government shut-down is at its meeting on December 17.



likely again to interrupt the flow of economic information on which the market depends.

The September trade data and revised GDP data, both due on Tuesday, and weekly jobless claims, due on

Wednesday, are all likely to be casualties of the budget battle. This week, traders will have more economic data to analyse. M4 money supply figures due today are expected to show an acceleration in money growth last month, but weakness in October's figures could exaggerate the annual comparison.

LONDON

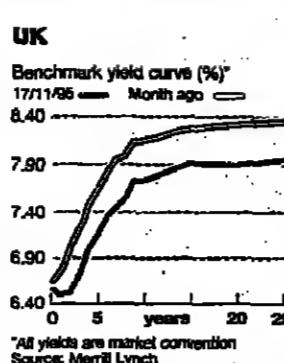
Graham Bowley

UK government bonds rallied strongly last week - the yield on the benchmark 10-year gilt fell to a new low for the year of 7.68 per cent.

This was due partly to a buoyant international bond market. But gilts were also supported by economic figures which seemed to provide scope for Chancellor Kenneth Clarke to cut interest rates soon. A fall in retail sales, a rise in unemployment, and a sharp drop in retail all seemed to point to an interest rate cut soon.

At the same time, an unexpectedly large drop in public borrowing in October due to a surge in tax receipts eased the government's funding pressures.

Mr Don Smith of HSBC Markets thinks the market could be troubled by concerns over upward pressures on wage inflation. He said the union negotiators' rejection of Ford Motor's two-year wage deal weighed on the gilts market on Friday.



UK non-EC visible trade figures are due tomorrow, while the CBI's industrial trends inquiry on Friday will provide a pre-Budget snapshot of confidence in industry.

Mr Alison Cottrell of PaineWebber foresees further repo cuts, culminating in a half-point cut in official rates by early in the second quarter of 1996 and a repo rate of about 3.7 per cent.

FRANKFURT

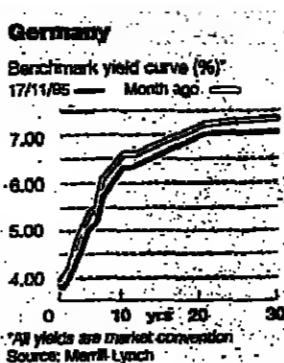
Andrew Fisher

Although speculation about a further cut in German short-term official interest rates was revived last week, the Bundesbank left them unchanged. This week, money supply and preliminary inflation figures will give the market more to ponder.

Economists forecast October M3 will have risen about 2 per cent after 1.6 per cent in September. UBS said this "has to be seen as a return to normal rather than a worrying acceleration. While the economy is weakening, strong M3 acceleration in the coming months is quite unlikely".

So further reductions in the discount and Lombard rates are still on the cards. The securities repurchase rate is still on the way down, last week slipping below 4 per cent.

From mid-1996, a combination of tax cuts, wage gains and stable unemployment should see domestic consumption reviving and the bias of interest rates switching from downwards to sideways."



She bases her expectations on the sluggish economy, lack of new upward pressure on wages, a federal budget which the Bundesbank can accept, moderate inflation, and poor business confidence.

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The government bond market has been volatile over the past week as domestic institutional investors, keen to see a 3 per cent coupon on the bonds to be auctioned this week, have tried to push up the benchmark yield.

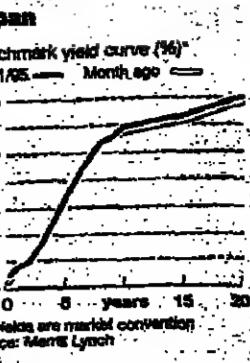
The auction will be significant, says SBC Warburg in Tokyo, as it is likely to establish the next 10-year benchmark. A third Y100bn tranche will create an issue of significant size to take over from the existing benchmark, which now has a maturity of less than nine years, it says.

This Friday's interim earnings announcements for banks may have negative implications for the bond market. Some of the stronger banks may move to write off their bad loans this business year, and may move to take profits on their securities holdings.

Fuji Bank has already announced it would write off its bad loans related to the yen, or all its housing loan

TOKYO

Emiko Terazono



companies, and may encourage other banks to do the same in order to tackle the "Japan premium" problem and reduce overseas funding costs.

Meanwhile, bond market participants are focused on the ministry of welfare's possible decision to allow life insurers to cut their pay-out rates on group pensions from 4.5 per cent to 2.5 per cent, which would keep them buying into the JGB market.

Spanish bonds

Improvement in fundamentals lifts prices

In spite of a string of scandals tarnishing the socialist government, Spain's economic fundamentals have been improving, reinforcing the belief it will meet inflationary and budgetary targets for this year.

This is good news for Spanish government bonds, which have been putting on a strong performance recently on the back of encouraging inflation and public deficit data. They have also been supported by the bullish tone in most European bond markets last week, where bond-positive data releases and France's measures to control the budget deficit pushed prices higher.

Spanish consumer prices for October, announced last Tuesday, confirmed the trend towards an easing of inflationary pressures: they rose 0.2 per cent in October, lower than the 0.3 per cent expectation, and the headline inflation rate fell to 4.3 per cent from 4.4 per cent. By the end of 1995, headline inflation is expected to fall to 4 per cent and below that by next year, according to the Spanish economy ministry.

Nevertheless, Ms Carmen

Hernanza, analyst at FG Sociedad de Valores in Madrid, thinks the Bank of Spain will have far greater difficulty in achieving the 3 per cent level of inflation by the end of 1997. Mr Jose Luis Alzola of Salomon Brothers in London shares this view, describing the central bank's 3 per cent inflation target as "ambitious".

Last week's September producer prices were also weaker than expected, up 0.3 per cent in the month, trimming the year-on-year rise to 6.6 per cent from 6.7 per cent.

There was more good news on the budgetary front: the cumulative state budget deficit for January to October fell by 8.5 per cent year-on-year, reaffirming the view that the government's target for a deficit-to-GDP ratio of 5.9 per cent for 1995 is attainable.

The trade deficit also saw positive figures, an 8.9 per cent drop compared with September 1994. Analysts at Salomon Brothers are calling the external sector "one of the brightest spots in the Spanish economy in 1995 and 1996".

They expect a slight current account surplus this year and investment and portfolio inflows to hold the peseta at a steady rate. Net tourism receipts, for instance, are expected to rise 10 per cent this year and to continue exceeding the trade deficit, mainly due to the late effects of the depreciation of the peseta in 1993.

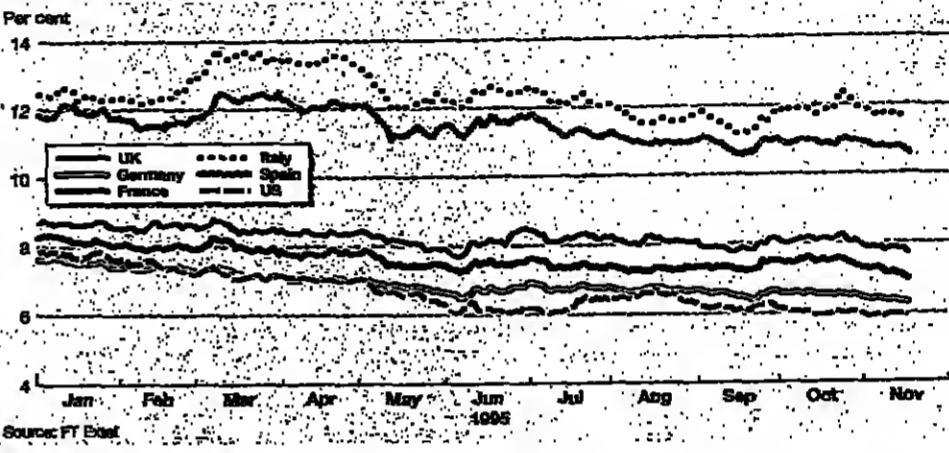
Market participants are now hoping that lower inflation pressures will lead to cuts in Spain's interest rates. Last Tuesday the Spanish economy minister, Pedro Solbes, dropped hints that the Bank of Spain should do so, especially in the light of falling inflation and the peseta's appreciation this year. This was in spite of recent statements by central bank governor Mr Luis Angel Rojo that, due to fiscal uncertainty, a near-term cut in rates was out of the question.

However, analysts say Mr Rojo could reverse his position as a significant tightening of fiscal policy is already underway following the government's failure to pass the 1996 budget; the Catalan Nationalists, on whom the government depends for a majority, withdrew their support.

According to the Spanish constitution, the 1995 budget will be automatically rolled over and expenditures frozen. Nevertheless, amendments to the 1996 draft budget have been considered, for instance a 1.5 per cent reduction in the deficit to 4.4 per cent of GDP, due to the Spanish government's budget deficit.

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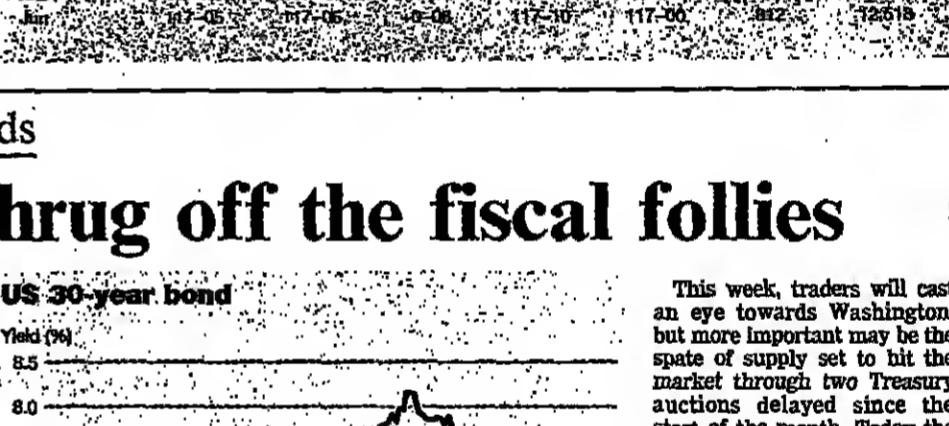
10-year benchmark bonds



INTEREST RATES AT 6-MONTH

	USA	UK	Germany	France	Italy	UK
1-year	4.00	11.00	11.00	11.00	11.00	11.00
2-year	4.00	10.80	10.80	10.80	10.80	10.80
3-year	4.00	10.60	10.60	10.60	10.60	10.60
5-year	4.00	10.40	10.40	10.40	10.40	10.40
10-year	4.00	10.20	10.20	10.20	10.20	10.20

US TREASURY BOND YIELDS (100 BASIS POINTS)

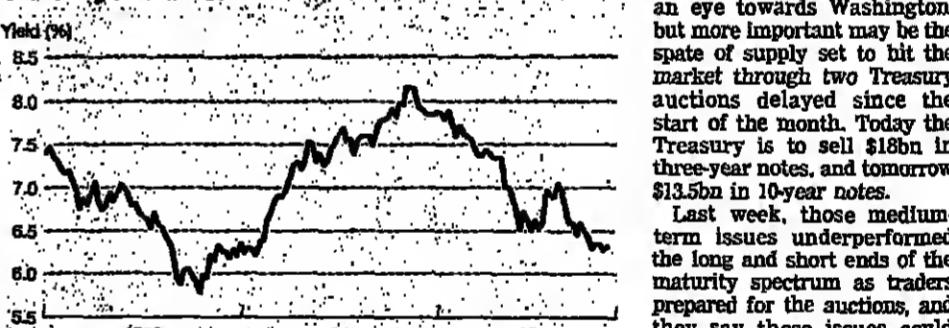


Pilar Junco

US Treasury bonds

Traders shrug off the fiscal follies

US 30-year bond



Mr Woody Jay, head of global government trading at Lehman Brothers, does not like basing trades on events in Washington. "Politicians have different agendas than financial markets; I don't feel good about trading on politics," he says.

Yet optimism replaced jitteriness on the US Treasury market last week, even as squabbles between the president and Congress over the shape of next year's budget became so intense it forced a partial closure of the government.

The benchmark 30-year Treasury soared, pushing the yield down 10 basis points to levels not seen since January 1994, just before the Federal Reserve began raising interest rates.

One reason for the bullish tone is that the current bickering in Washington is quite different from past budget-related disputes in that both sides are intent on cutting the budget.

"If the hold-out means the government shuts down for a week and a balanced budget is on the back of it, the market is okay with that," Mr Jay says.

In addition, the weak economic statistics prompted speculation that the Fed might lower interest rates, even before a budget package is agreed.

by the growing possibility that

WORLD STOCK MARKETS

EUROPE										NORTH AMERICA										ASIA																								
High					Low					YTD					High					High					Low					YTD														
Nov 17	Nov 16	Nov 15	Nov 14	Nov 13	Nov 17	Nov 16	Nov 15	Nov 14	Nov 13	Nov 17	Nov 16	Nov 15	Nov 14	Nov 13	Nov 17	Nov 16	Nov 15	Nov 14	Nov 13	Nov 17	Nov 16	Nov 15	Nov 14	Nov 13	Nov 17	Nov 16	Nov 15	Nov 14	Nov 13	Nov 17	Nov 16	Nov 15	Nov 14	Nov 13										
Austria	1,070	1,060	1,050	1,040	1,030	1,020	1,010	1,000	990	1,020	1,010	1,000	990	980	1,020	1,010	1,000	990	980	1,020	1,010	1,000	990	980	1,020	1,010	1,000	990	980	1,020	1,010	1,000	990	980	1,020	1,010	1,000	990	980					
Belgium	471	460	450	440	430	420	410	400	390	420	410	400	390	380	420	410	400	390	380	420	410	400	390	380	420	410	400	390	380	420	410	400	390	380	420	410	400	390	380					
Denmark	465	455	445	435	425	415	405	395	385	415	405	395	385	375	415	405	395	385	375	415	405	395	385	375	415	405	395	385	415	405	395	385	375	415	405	395	385	375	415	405	395	385	375	
Finland	2,800	2,750	2,700	2,650	2,600	2,550	2,500	2,450	2,400	2,550	2,500	2,450	2,400	2,350	2,550	2,500	2,450	2,400	2,350	2,550	2,500	2,450	2,400	2,350	2,550	2,500	2,450	2,400	2,350	2,550	2,500	2,450	2,400	2,350	2,550	2,500	2,450	2,400	2,350					
Germany	1,010	1,000	990	980	970	960	950	940	930	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920
Iceland	810	800	790	780	770	760	750	740	730	760	750	740	730	720	760	750	740	730	720	760	750	740	730	720	760	750	740	730	720	760	750	740	730	720	760	750	740	730	720	760	750	740	730	720
Ireland	1,010	1,000	990	980	970	960	950	940	930	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920
Ireland	1,010	1,000	990	980	970	960	950	940	930	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920
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Ireland	1,010	1,000	990	980	970	960	950	940	930	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920
Ireland	1,010	1,000	990	980	970	960	950	940	930	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920
Italy	1,010	1,000	990	980	970	960	950	940	930	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920
Italy	1,010	1,000	990	980	970	960	950	940	930	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920
Italy	1,010	1,000	990	980	970	960	950	940	930	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920
Italy	1,010	1,000	990	980	970	960	950	940	930	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920
Italy	1,010	1,000	990	980	970	960	950	940	930	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920
Italy	1,010	1,000	990	980	970	960	950	940	930	960	950	940	930	920	960	950	940	930	920	960	950	940	930	920	960	950	940</																	

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Nov 17	Closing mid-point	Change on day	Bid/offer spread	Day's high	Day's low	One month	Three months	One year	JP Morgan
				Rate	Rate	Rate	Rate	Rate	Index
Europe									
Austria	(Sch) 15.3231	-0.0633	349 - 513	15.1828	15.2667	15.9127	2.4	107.1	
Belgium	(BFR) 44.8567	-0.2777	102 - 012	45.1420	45.7400	44.7507	2.8	103.9	
Denmark	(DKK) 8.4528	-0.0004	873 - 895	8.4925	8.4821	8.4551	1.1	8.8851	1.0
Finland	(FM) 6.5057	-0.0498	973 - 136	6.5470	6.5410	6.5013	0.8	110.3	
France	(FR) 7.5300	-0.0317	873 - 905	7.5568	7.5040	7.9256	-0.8	110.0	
Germany	(DE) 2.1803	-0.0116	782 - 814	2.1908	2.1728	2.1755	2.7	2.1248	2.8
Greece	(GR) 361.251	-0.2176	057 - 445	368.000	368.000	368.004	1.0	365.000	365.000
Ireland	(IE) 0.9692	-0.0026	827 - 852	0.9705	0.9690	0.9684	1.0	0.9671	0.9683
Italy	(IT) 2.4080	-0.49	821 - 158	2482.73	2465.00	2477.01	2.5	2465.00	2501.2
Luxembourg	(LFR) 0.8667	-0.277	102 - 012	45.1420	45.7400	44.7507	2.8	85.87	85.87
Netherlands	(NL) 2.4416	-0.0161	409 - 423	2.4281	2.4248	2.4195	2.8	2.4074	2.4195
Norway	(NO) 9.8114	-0.0011	080 - 108	9.8650	9.8291	9.5958	1.5	9.5771	9.5105
Portugal	(PT) 229.973	-0.0001	721 - 021	220.123	227.980	224.415	-2.8	220.033	21.1
Spain	(PE) 167.672	-0.0899	771 - 772	168.482	167.208	182.172	-3.2	182.112	181.512
Sweden	(SE) 10.1501	-0.1115	810 - 812	10.2861	10.1548	10.1923	-0.3	10.1688	10.2203
Switzerland	(CH) 1.7852	-0.0108	630 - 635	1.7722	1.7780	1.7881	4.5	1.7483	1.8033
UK	(GB) 1.1813	-0.0006	804 - 924	1.1974	1.1890	1.1903	1.0	1.1888	1.1788
Ecu	(Ecu) 1.0404	-0.0006	804 - 924	1.1974	1.1890	1.1903	1.0	1.1788	1.0
Americas									
Argentina	(Peso) 1.6514	-0.0042	506 - 620	1.5958	1.5905	1.5905			
Brazil	(BRL) 1.4923	-0.0004	814 - 817	1.4900	1.4911	1.4911			
Canada	(C\$) 2.1001	-0.0076	920 - 011	2.1145	2.1093	2.1012	-0.8	2.1032	2.1012
Mexico (New Peso)	11.9900	-0.0714	475 - 527	12.0267	11.9404	11.9404			
USA	(US) 1.5521	-0.0001	510 - 528	1.5561	1.5505	1.5505			
Pacific/Middle East									
Australia	(AU) 2.0022	-0.0125	908 - 956	2.1088	2.0895	2.0895	-0.7	2.0884	2.1111
Hong Kong	(HK) 12.0332	-0.0384	978 - 1078	12.0332	11.9907	11.9907	0.3	11.9892	11.9892
India	(INR) 53.8424	-0.2658	940 - 947	54.2070	53.3798	53.3798			
Israel	(ILS) 4.7520	-0.0033	485 - 575	4.7643	4.6990	4.6990			
Japan	(JP) 158.702	-0.3836	574 - 587	169.260	157.200	157.842	6.5	158.047	146.002
Malaysia	(MY) 0.2128	-0.0001	250 - 258	0.2047	0.2000	0.2000			
New Zealand	(NZ) 2.3600	-0.0001	250 - 258	2.3647	2.3500	2.3500			
Philippines	(Peso) 40.7194	-0.0899	510 - 518	40.7194	40.7194	40.7194	2.401	3.2103	2.4103
Saudi Arabia	(SAR) 5.8212	-0.0157	510 - 518	40.7194	40.7194	40.7194	2.401	3.2103	2.4103
South Africa	(ZAR) 2.1908	-0.0068	882 - 885	2.2007	2.1983	2.1983			
South Korea	(W) 0.0013	-0.0013	573 - 638	0.5684	0.5682	0.5682			
Taiwan	(TW) 11.9518	-0.0001	510 - 518	120.0001	119.1804	119.0404			
Thailand	(TH) 36.0196	-0.1134	917 - 479	36.1930	36.1930	36.1930			

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 17	Closing mid-point	Change on day	Bid/offer spread	Day's high	Day's low	One month	Three months	One year	JP Morgan
				Rate	Rate	Rate	Rate	Rate	Index
Europe									
Belgium	(Bel) 8.6854	-0.0332	832 - 875	8.6905	8.6460	8.6703	1.6	8.6402	8.6709
Belgium	(BFR) 2.0400	-0.0173	445 - 475	5.4500	5.4000	5.4467	-0.2	5.4145	5.4542
Denmark	(DKK) 4.1910	-0.0118	875 - 923	4.2098	4.1784	4.1912	0.1	4.1910	4.1856
Finland	(FM) 1.4040	-0.0047	045 - 050	1.4040	1.4000	1.4028	1.7	1.3986	1.3983
France	(FR) 2.2278	-0.0002	800 - 820	2.2308	2.2300	2.2447	-0.7	2.2151	2.2151
Germany	(DE) 1.5815	-0.0002	805 - 815	1.5815	1.5815	1.5815		1.5815	1.5815
Greece	(GR) 1.8075	-0.0002	805 - 815	1.8075	1.8075	1.8075		1.8075	1.8075
Ireland	(IE) 1.5815	-0.0002	805 - 815	1.5815	1.5815	1.5815		1.5815	1.5815
Italy	(IT) 1.5815	-0.0002	805 - 815	1.5815	1.5815	1.5815		1.5815	1.5815
Netherlands	(NL) 1.5815	-0.0002	805 - 815	1.5815	1.5815	1.5815		1.5815	1.5815
Spain	(PE) 1.5815	-0.0002	805 - 815	1.5815	1.5815	1.5815		1.5815	1.5815
Sweden	(SE) 1.5815	-0.0002	805 - 815	1.5815	1.5815	1.5815		1.5815	1.5815
UK	(GB) 1.5815	-0.0002	805 - 815	1.5815	1.5815	1.5815		1.5815	1.5815
Other									
US	(US) 1.5815	-0.0002	805 - 815	1.5815	1.5815	1.5815		1.5815	1.5815

WORLD INTEREST RATES

November 17	Over night	One month	Three months	One year	Lomb. rate	Dis. rate	Repo rate
	month	months	months	months	month	month	month
Belgium	4	4	4	4	4	4	4
France	4	5	5	5	5	4	4
Germany	4	5	5	5	5	5	5
Ireland	5	5	5	5	5	5	5
Italy	10	10	10	10	10	10	10
Netherlands	3%	3%	3%	3%	3%	3%	3%
Spain	3%	3%	3%	3%	3%	3%	3%
UK	3%	3%	3%	3%	3%	3%	3%
Other	3%	3%	3%	3%	3%	3%	3%

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Int. Sales Chgs	Selling Price	Buying Price	Yield (%)
			0% U
Fidelity Currency Funds Ltd			
Pensthorpe Hall, Pensthorpe, Bermuda			
Mr. Prof. Address 0000 414101			
Phone (0000) 414101			
From 0000 144-1732 7777-7777			
Acc Account	4510.76	4510.76	
Acc Account	4510.76	4510.76	
73 Account	4510.76	4510.76	
60 Account	4510.76	4510.76	
50 Account	4510.76	4510.76	
54 Account	4510.76	4510.76	
55 Account	4510.76	4510.76	
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57 Account	4510.76	4510.76	
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68 Account	4510.76	4510.76	
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76 Account	4510.76	4510.76	
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79 Account	4510.76	4510.76	
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81 Account	4510.76	4510.76	
82 Account	4510.76	4510.76	
83 Account	4510.76	4510.76	
84 Account	4510.76	4510.76	
85 Account	4510.76	4510.76	
86 Account	4510.76	4510.76	
87 Account	4510.76	4510.76	
Prices for dealing November 17			
Jupiter Tyndall (Bermuda) Ltd			
P.O. Box 1124, Hamilton, Bermuda			
Jupiter Tyndall World Umbrella Fund Ltd			
Equity Fund	213.50	213.50	2.35
Corporate Fund	213.50	213.50	2.35
Mortgage Fund	213.50	213.50	2.35
North American Fund	213.50	213.50	2.35
Corporate Bonds Fund	213.50	213.50	2.35
Treasury Fund	213.50	213.50	2.35
UK Small Cap Fund	213.50	213.50	2.35
First Trust International Management			
73 First Trust, Hamilton, Bermuda			
Box 8771, HST 00000			
Nat. Pacific	5	5	1.50
Nat. Pacific Fund	5	5	1.50
Transport Fund	5	5	1.50
Transport Tiger Fund	5	5	1.50
Orion Fund Limited			
6 First St., Hamilton, H1H 1, Bermuda			
Orion Nov 9	528.10	441.292	3.24

BERMUDA (REGULATED)™

GUERNSEY (SIR RECOGNISED)

GUERNSEY (REGULATED)

10

IRELAND

ISLE OF MAN (REGULATED) (**) (continued)									
Ref	ISIN	ISIN	ISIN	ISIN	ISIN	ISIN	ISIN	ISIN	ISIN
Capita Fund									
Capital Value Fund Plc	SI0152	-	IS0012						
Chemical Ireland Fund Administrators Ltd	SI0156	-	IS0518						
China Investment Fund	SI0157	-							
China Growth Fund	SI0158	-							
China Investment Fund	SI0159	-							
China Technology Fund	SI0160	-							
City Investment Fund (Ireland)	SI0161	-							
City Korea Fund	SI0162	-							
City Korea Equity Fund	SI0163	-							
City Korea Fund Company	SI0164	-							
City Korea Fund Fund	SI0165	-							
City Korea Fund Fund	SI0166	-							
City Korea Fund Fund	SI0167	-							
City Korea Fund Fund	SI0168	-							
City Korea Fund Fund	SI0169	-							
City Korea Fund Fund	SI0170	-							
City Korea Fund Fund	SI0171	-							
City Korea Fund Fund	SI0172	-							
City Korea Fund Fund	SI0173	-							
City Korea Fund Fund	SI0174	-							
City Korea Fund Fund	SI0175	-							
City Korea Fund Fund	SI0176	-							
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City Korea Fund Fund	SI0199	-							
City Korea Fund Fund	SI0200	-							
City Korea Fund Fund	SI0201	-							
City Korea Fund Fund	SI0202	-							
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City Korea Fund Fund	SI0288	-							
City Korea Fund Fund	SI0289	-							
City Korea Fund Fund	SI0290	-							
City Korea Fund Fund	SI0291	-							

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OFFSHORE INSURANCES

AVA Equity & Law Ind Life Assurance Co

4 pm close November 17

NYSE COMPOSITE PRICES

NASDAQ NATIONAL MARKET

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1985	Low Stock	Mo.	Yr.	Mo.	High	Low	Close	Chg/	Open	High	Low	Close	Chg/	Open	High	Low	Close	Chg/	Open	High	Low	Last	Chg	Mo.	Yr.	Mo.	High	Low	Last	Chg
57% 39% SBC Com	1.65	31	16	6/21	54	34	53	-1	105	7	11	105	-1	105	7	11	105	-1	105	7	11	105	-1	-	-	-	-	-	-	-
26% 23% SBC Corp	1.44	55	16	25/26	25	25	25	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
11% 0% Schenck	0.20	40	18	358	35	35	35	-1	195	12	10	105	-1	195	12	10	105	-1	195	12	10	105	-1	-	-	-	-	-	-	-
50% 37% Schenck	0.22	22	825	41	41	41	41	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
89% 50% Schenck	1.10	21	20	7743	58	54	55	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
28% 11% Schenck	1.50	22	10/16/1	57	64	64	64	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
0.10 0.17 25/26	0.10	47	15	26/26	24	24	24	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
24% 11% Schenck	0.08	44	22	4003	104	104	104	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
20% 15% Schenck	0.10	68	10	321	182	165	165	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
55% 33% Schenck	0.40	47	15	36/21	54	55	55	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
38% 28% Schenck	0.52	14	25	178	374	374	374	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
11% 8% Schenck	0.02	01	85	133	132	132	132	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
20% 13% Schenck	0.70	38	2	8	165	165	165	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
15% 14% Schenck	1.48	94	7	154	152	152	152	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
22% 22% Schenck	0.08	44	22	10/32	153	51	51	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
35% 25% Schenck	0.80	18	25	210	365	365	365	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
20% 15% Schenck	0.08	44	22	1488	303	295	295	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
10% 10% Schenck	0.62	23	10/32	389	395	395	395	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
10% 10% Schenck	1.15	62	21	467	185	185	185	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
30% 20% Schenck	0.84	59	6	124	124	124	124	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
20% 20% Schenck	0.02	19	20	1803	225	224	224	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
30% 23% Schenck	0.50	13	20	23	305	305	305	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
43% 28% Schenck	0.44	10	25	7938	434	425	425	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
7% 4% Schenck	0.80	34	13	193	28	28	28	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
57% 22% Schenck	0.51	308	414	424	424	424	424	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
17% 12% Schenck	0.30	20	16	1478	153	153	153	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
36% 18% Schenck	0.58	25	14	1946	355	355	355	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
15% 7% Schenck	0.28	22	44	703	125	125	125	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
75% 24% Schenck	0.84	59	8	84	125	125	125	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
50% 34% Schenck	0.84	18	17	1088	1075	1075	1075	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
50% 34% Schenck	0.84	18	17	1088	1075	1075	1075	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
50% 34% Schenck	0.84	18	17	1088	1075	1075	1075	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
50% 34% Schenck	0.84	18	17	1088	1075	1075	1075	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
50% 34% Schenck	0.84	18	17	1088	1075	1075	1075	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
50% 34% Schenck	0.84	18	17	1088	1075	1075	1075	-1	105	12	11	105	-1	105	12	11	105	-1	105	12	11	105	-1	-	-	-	-	-	-	-
50% 34% Schenck	0.84	18	17	1088	1075	1075	1075	-1																						

AMEX COMPOSITE PRICES

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FT GUIDE TO THE WEEK

MONDAY 20

EU-Israel deal to be signed

Shimon Peres, acting prime minister of Israel, attends a meeting of EU foreign ministers in Brussels to sign the long-awaited EU-Israel association agreement. Ministers will also try to strike a deal on market access for east European farm exports, and bold talks on relations with Russia and the US, reconstruction in former Yugoslavia, and the situation in Nigeria (to Nov 21).

Gore visits Murayama

US President Bill Clinton, beset by budget problems at home, is sending Vice-President Al Gore to hold talks with Japan's Prime Minister Tomiichi Murayama in Tokyo in his stead. The two will pledge continuing support for the US-Japan security alliance in the wake of the recent upsurge of Japanese public resentment of US troops in Japan.

EU media compromise likely

France is expected to give up its fight for tougher controls on European broadcasting when culture ministers meet in Brussels. The Spanish presidency of the EU has proposed a compromise on television quotas that largely reverts to the existing regime of 51 per cent European content "wherever possible". The proposal tightens up some of the old 1989 broadcasting law's ambiguities and is expected to get the support of a qualified majority of member states.

Chernobyl health review

Some 600 health specialists and policy-makers meet in Geneva (to Nov 23) to review the health consequences of the world's worst-ever nuclear accident at Chernobyl in Ukraine in April 1986. Some 300 people were exposed to fallout, with health effects that include a huge rise in thyroid cancer in children.

Greek president in Bulgaria

Greece's President Costis Stefanopoulos makes his first official visit to Bulgaria. He is expected to try to smooth out a dispute over the Greek-Bulgarian plan to build an oil pipeline between the Black Sea and the Aegean.

Ferry safety to be discussed

The International Maritime Organisation, the London-based United Nations body responsible for ship safety, meets to consider measures to improve the safety of roll-on/roll-off ferries (to Nov 29). It will consider a series of proposals to improve their stability in rough seas when there is a risk of water collecting on the car deck. Its deliberations were prompted by the sinking of the Estonia in the Baltic Sea in September 1994 when 900 lives were lost.

Saleroom: Nureyev

The contents of Rudolf Nureyev's Paris apartment are to be auctioned at Christie's in London today and tomorrow. Well over £2m (\$3.16m) should be raised from an eclectic collection, which ranges from the



Greece's Prime Minister Andreas Papandreou faces pressure from his party (Pasok) to step down amid concern over his wife's influence

dancer's shoes to the paintings of male nudes which adorned his walls. Among the highlights is a nude by Gericault estimated at up to £20,000 (\$44,800). There are also many of Nureyev's working costumes, textiles and furnishings.

Crown of the Andes

The so-called "Crown of the Andes" (detail left) comes under the hammer at Christie's in New York tonight. The crown was originally part of the treasury of the cathedral of Popayan in what is now Colombia, and probably dates back to the 16th century, although with later amendments. It contains almost 8lb of gold encrusted with 450 local emeralds. The crown was sold to the US in the 1930s and subsequently toured the country. The Colombian government is the most likely bidder: the estimate is \$3m-\$5m.

Tennis

ATP world doubles championships, Jakarta, Indonesia (to Nov 26).

FT Surveys

Norway and China.

Holidays

Belize, Mexico.

TUESDAY 21

Opec meets in Vienna

Opec ministers meet in Vienna to set production quotas for the next six months.

Crude oil prices have rallied in the past few days because of the row over the Nigerian executions and the bomb blast in Riyadh. But with non-Opec production strong, the underlying market trends do not favour the oil cartel, and ministers are expected to roll over their existing quotas.

Fab four ride again

The first volume of The Beatles Anthology is released on the Parlophone label: 60 tracks including unreleased songs, radio and TV sessions and alternative versions of the group's early hits. Attention is bound to focus on the single, "Free As a Bird", featuring the late John Lennon's vocals and an accompaniment by the surviving three Beatles - the group's first new release for 25 years.

FT Surveys

South Africa and Hungary.

WEDNESDAY 22

Peres to present government

Israel acting prime minister Shimon Peres is expected to present his government formed in the wake of the assassination of prime minister Yitzhak Rabin. Mr Peres is expected to award senior positions to Ehud Barak, interior minister, and Haim Ramon, the head of the Histadrut trades union federation.

EU economic reports due

The European Commission unveils economic forecasts for the EU member states for 1996 and 1997. Performance in these two years will be the basis for judging whether countries' meet the Maastricht criteria for monetary union.

Anti-land mine campaign

The Geneva-based International Committee of the Red Cross is launching a world-wide media campaign to mobilise public support for the abolition of anti-personnel landmines. A review of the 1990 UN inhumane weapons convention last month failed to agree a ban, and the ICRC fears meetings planned for early next year will be equally inconclusive. Landmines kill or maim more than 2,000 people every month.

Turkish-German talks in Bonn

Deniz Baykal, Turkey's foreign minister, holds talks with Klaus Kinkel, his German counterpart. High on the agenda are bilateral relations, including trade, and the status of the 2m Turks living in Germany who are completely disenfranchised.

Immediately after the meeting, senior officials from Britain, Spain, France and Italy will meet Mr Baykal with the aim of intensifying political dialogue. Human rights and Ankara's request for greater access to the European Union markets are also on the agenda.

FT Surveys

Merseyside and East Midlands Business Property.

Holidays

Greece and the US celebrate Thanksgiving, Georgia.

Future of Lomé considered

The future of one of the world's more comprehensive trade agreements will be debated at the Seventh European-Caribbean Conference in Trinidad (to Nov 23). The Lomé Convention, the trade pact between the European Union and 70 developing countries, expires in 2000.

It is unlikely to be continued, depriving the developing countries of guaranteed markets for commodity exports, such as bananas and sugar, and significant aid from the EU.

Export awards ceremony

The finals for a UK export excellence award jointly sponsored by National Westminster Bank, the FT Exporter publication, and the Institute of Export is held at the Institute of Civil Engineers, London. Michael Heseltine, the deputy prime minister, will present the award to one of six finalists at a lunch.

FT Survey

Czech Republic.

Holidays

Germany (some states), Lebanon.

THURSDAY 23

Boost for EU internal market

Ministers responsible for the European Union's single market meet in Brussels to discuss ways of making the internal market more relevant to Europe's citizens. In keeping with that spirit, they will hold the debate in public.

Ministers want to show Euro-citizens what their rights are, and to get feed-back on the barrier-free market's bottle-neck.

The ministers should also reach agreement on a proposal to track abuses of the single market by systematically recording examples of where member states block goods or services from another.

Arafat receives prize

Chancellor Helmut Kohl awards the German media prize to Yasir Arafat, chairman of the Palestine Liberation Organisation, and posthumously to Yitzhak Rabin, the assassinated Israeli prime minister, at Baden-Baden, south-west Germany.

On Friday, Klaus Kinkel, Germany's foreign minister, will hold talks in Bonn with Mr Arafat. Germany is keen to play a role in the economic reconstruction in the middle east.

FT Surveys

Merseyside and East Midlands Business Property.

Holidays

Japan and the US celebrate Thanksgiving, Georgia.

FRIDAY 24

Ireland votes on divorce

Catholic Ireland votes in a referendum on whether to lift a 58 year old constitutional ban on divorce.

The government, which has publicly called for a Yes vote, hopes to avoid a repeat of the referendum result in 1986 which turned out 2:1 against allowing divorce, and shake off the country's priest-ridden image, as the only member of the European Union which prohibits re-marriage.

SUNDAY 26

Papandreou's future in doubt

Greece's governing Panhellenic Socialist Movement (PASOK) begins a two-day central committee meeting. Dissident factions in the party will try to force ailing Prime Minister Andreas Papandreou to set a timetable for stepping down and choosing a new party leader.

Pasok members may also question the role of Dimitra Papandreou, the prime minister's wife, who is accused of wielding too much influence.

Horse racing

Hennessy Cognac Gold Cup, Newbury racecourse, England.

SUNDAY 26

Côte d'Ivoire elections

The west African state holds parliamentary elections. New electoral laws have disenfranchised many of the population, including Alassane Ouattara, the main rival to the ruling PDCI (Partie D'Ivoire) led by incumbent Henri Konan-Bédié.

As a result the opposition boycotted the recent presidential poll, which was marred by widespread protests and violence in which several people died.

The opposition has agreed to take part in the parliamentary polls and formed a coalition Republican Front which is already split.

Horse racing

Japan Cup, Tokyo.

Compiled by Patrick Stiles.
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Other economic news

Monday: A second estimate of UK gross domestic product in the third quarter of the year is expected to confirm that output grew by 0.5 per cent in the three months to September. Provisional UK M4 money supply is expected to have grown at an annual rate of 8.4 per cent last month.

Tuesday: Most economists think French manufacturing production grew more slowly in September than it did in August. The UK's visible trade gap with countries outside the European Union is thought to have widened last month after narrowing in September.

Wednesday: The Netherlands' gross domestic product is thought to have expanded by 2.6 per cent in the year to the third quarter. Canadian consumer prices are expected to have risen slightly last month.

Thursday: Swedish retail sales are expected to have risen more quickly in September than they did in August. Most economists expect Spain's unemployment rate to have fallen only slightly in the third quarter of the year.

Friday: The Confederation of British Industry is expected to deliver a further subdued picture of the UK's manufacturing sector.

ECONOMIC DIARY

Day	Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon		Japan	Nov whr price index, 1st 10 days-	-0.1%	
Nov 20	UK	3rd qtr gross domestic product**	0.5%	0.5%	
UK		3rd qtr gross domestic product**	2.4%	2.4%	
UK		Oct M4*	0.2%	0.4%	
UK		Oct M4**	8.4%	8.2%	
UK		Oct M4 lending	£3.0bn	£4.1bn	
UK		Oct bdg stics net new committ's	£2.6bn	£2.6bn	
Italy		Sep producer price index**	8.8%	9.0%	
Italy		Sep wholesale price index**	10.7%	10.8%	
Canada		Oct department store sales**	5.3%	10.0%	
Tues	US	Sep trade: goods & services**	-\$9.9bn	-\$8.8bn	
Nov 21	US	Sep goods/services export (BoP)**	\$66.4bn	\$65.7bn	
US		Sep goods/services import (BoP)**	\$75.4bn	\$74.6bn	
US		Johnson Redbook w/e Nov 18	-2.2%		
Japan		Sep overall pers consum expend**	-0.4%	-0.3%	
Japan		Sep pers consumer exp. workers**	-0.5%		
Japan		Sep income: workers**	3.0		
Japan		Sep mach'y ord ex-powerships**	0.3%	-3.9%	
Japan		Sep mach'y ord ex-powerships**	2.9%	2.4%	
France		Sep industrial production**	-0.2%	0.2%	
France		Sep manufacturing production**	0.2%	0.8%	
UK		Oct trade balance ex-EC	-£900m	-£906m	
Italy		Nov cities consumer price index**	0.3%	0.6%	
Canada		Sep merchandise imports**	0.7%	9.6%	
Canada		Sep merchandise imports**	2.2%	3.5%	

*month on month, **year on year, ***not on est, **estimates ad. Statistics, courtesy MMS International.

Statistics to be released this week

Day	Released	Country	Economic Statistic	Median Forecast	Previous Actual
Wed		US	Initial claims w/e Nov 18**	365,000	365,000
Nov 22	US	State benefits w/e Nov 11**	-	-	-
US		Nov Michigan sentiment final	-	90.7	
US		Oct Treasury budget	-\$29.0bn	\$7.3bn	
Japan		Sept coincident index	30.0%	40.0%	
Japan		Sept leading diffusion index	36.4%	30.0%	
France		Oct consumer price index final**	0.1%	0.15%	
France</					

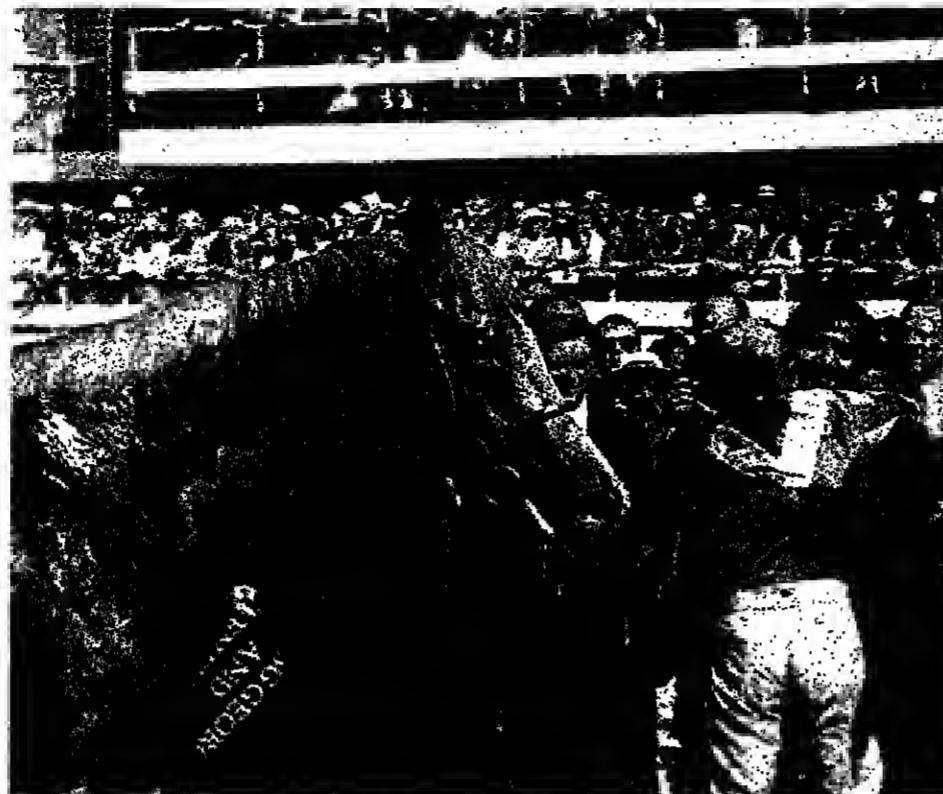
SPORT / ARCHITECTURE

Dubai: how the Maktoums' racing jigsaw fits together

SPORT



KEITH WHEATLEY



English Derby winner Lammtarra benefited from his winter in Dubai

I wonder if I should have taken my shoes off at the door of the barn, so sepulchral is the atmosphere. Some of the world's most expensive racehorses stare attentively at the comings and goings. Classic Cliché, says one nameplate. Another: Moonshell. Lammtarra, this season's unbeaten winner of the English Derby and of the Prix de l'Arc de Triomphe, was here just winter.

"From morning feed to late afternoon nothing is allowed to disturb their rest. No noise, no sudden movement. If the gardener turns up to mow the lawn we tell him to come back later," explains Simon Crisford, who is racing manager to Sheikh Mohammed bin Rashid Al-Maktoum. Outside, there is infinitely more sand than grass, for we are in Dubai, headquarters of Godolphin, the racing company with which Sheikh Mohammed, a member of Dubai's ruling family, is revolutionising the sport of thoroughbred racing.

In Britain, trainers who had become used to the year-round drip of Maktoum money will write anguished letters to the racing papers because of Godolphin's success. Because Sheikh Mohammed wants to train some of his priceless animals personally and has been removing some of them from frosty Newmarket and foggy Lambourn to his own Arabian back yard each winter, he has naturally attracted a few grumblers.

Since few have been privileged to visit the Al Quoz racing stables in Dubai, rumours of bizarre and complex training methods abound. But Crisford only laughs. "We don't go in for many gadgets," explains Sheikh Mohammed's racing manager. He follows my glance to the azure nine 50-metre stretch of water that is an equine swimming pool. Most British yards run only to a small circular pool in which horses develop a bias to left or right as they follow the curve of the wall.

"The pool is only a training aid for conditioning. If they pick up a hoof or leg problem, we don't even use it that much," says Crisford, anticipat-

ing my thoughts. "It's back to basics here, and very simple training methods."

If genius is the infinite capacity for taking pains, then Sheikh Mohammed is right up there with Leonardo and Albert. Of the 70 horses shipped to Dubai each November by Godolphin, each has been personally selected by its owner for a conditioning and training regime that is planned individually for each animal.

Some may be precocious, others backward. Some are two-year-olds yet to race, whilst the top animals (already winners in Europe) may be destined for lightning commando raids on big races in Japan, Hong Kong or California, where they will win millions.

According to Crisford, the Godolphin regime is a complex jigsaw in which hundreds of factors interact. Diet is one. The feedstore holds hay from Washington, alfalfa from Australia, yet is only a small chilled room. When food is down in daily, you do not need much storage space.

Climate is important. The chosen thoroughbreds are flown to Dubai after a hard season in Europe, just as the autumn weather is getting chilly, and are lodged for six months in a land where a sacred day of leisure,

and groom the sand surface.

Labour is an issue here.

Pakistani grooms and stable lads at Al Quoz work with a zeal that only the Gulf's immigrant workers can produce. "In the UK the only reason that horses break training to stay in their stables on Sundays is that the staff want a day off," explains Crisford, who is at his desk to meet me early on a Friday, the Arab world's sacred day of leisure.

"We can have consistent conditions day in and day out. No breaks for frost or torrential rain. I can't emphasise how much that does for soundness in a horse."

"Other trainers don't have

access to the resources that Godolphin does. It's a seven-day-a-week operation whilst we are here; then the whole operation picks up just like a circus and moves back to Newmarket."

However, the aim is not just

to have a superbly fit string of racehorses with which to blitz

the early-season English classics. As the sport becomes more and more international, top European horses are now expected to compete in Hong Kong, Japan and the US.

Dubai is strategically placed as a gateway between east and west, and is becoming the centre of gravity for top racehorses just as Arabia used to be. Racing is evolving back towards its origins in the 17th and 18th centuries when three Arab stallions imported into England established the foundations of the modern racehorse.

"Horses return from Dubai with an edge. It may not be much, just a neck perhaps, and it may only last a couple of weeks, but if that's enough to win a Group 1 race (the highest category) then the system is working," says Crisford. His manner is low-key, insistent on just one point. "It isn't money. We have resources, but we are not buying the wins. Someone can give you a Rolls Royce, but it's still awfully easy to crash it."

It gives Crisford, a remarkably young-looking 33, enormous power within racing.

Normally one achieves eminence as a trainer, jockey or

owner, yet although he was once assistant trainer to John Dunlop, this season's top English trainer, Crisford has done none of these things. He is a relatively new breed: the racing manager who puts the jigsaw pieces together.

So far it has seemed to work.

A strike rate of six classics in just two seasons is remarkable by any standards, and Lammtarra's breathtaking Derby win at Epsom last June will be talked of by generations of racing fans.

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British heritage to bedlam and back

Colin Amery on new uses for 19th century asylums

He's gone to the loony bin," I can remember hearing those words as a child when my brother announced that a neighbour had just been committed to the Colney Hatch Asylum. The poor old colonel was never to return home again.

I used to accompany my parents when they visited him and for me these visits were a major architectural thrill. I wasn't allowed to go inside the asylum, much as I wanted to see our neighbour singing hymns and conducting an imaginary Salvation Army band.

Instead I wandered around looking with amazement at the twin domes and imagining I was seeing some great Italian palace. The building stood at the top of a hill and was incredibly imposing. Along the front of it was a single storey arched corridor that was repeated, at over 500ft, to the longest corridor in Europe - if not the world.

There is very little evidence that these architectural splendours contributed to any easing of the mental strife of the patients. Indeed they probably only encouraged a sense of increased isolation and megalomania.

Friern Barnet Hospital, which was the proper name for Colney Hatch, had been opened in 1849 by Prince Albert. It was enormous and when going full tilt could house 1,250 patients on its 40-acre site. It has been empty since 1990 and has been partially demolished while being marketed for redevelopment.

By the year 2000, according to a new SAVE Britain's Heritage report, some 98 out of a total of 121 large mental hospitals will have closed. By the end of last year some 36 had closed with the remaining closing at a rate of 15 to 20 a year.

The closures have to be seen alongside the despatching of many NHS hospitals - several have already been demolished and their sites sold for development. The context is in fact even wider. Naval and military

buildings of great national and architectural significance are under the hammer of the auctioneer or the demolition team. Last week the deadline for offers for the Royal Naval College at Greenwich passed and the appropriate ministers have now to decide between a variety of bids.

The range is wide and some are in financial terms very substantial. Should it be an international management school or a new university - surely it has enormous residential possibilities. SAVE claims that not since the Beeching axe fell on the branch lines of our railways has so much of the nation's public architectural heritage been made so precipitately redundant.

No longer do we have to worry about the fate of privately owned country houses. They are very desirable to rich individuals from all over the world and it is true to say that country houses have never been so well looked after. It is the vast inheritance of the 19th century buildings in and around our cities that is the conservation problem for the end of the twentieth century. It is the scale and quality of that inheritance that is daunting and impressive.

The redevelopment of a listed, but redundant hospital in central London illustrates one way of dealing with this inheritance. It was shown around the building by the same agents who are marketing the Royal Naval College at Greenwich, Knight Frank and Rutley.

The former hospital, St.

Peter's in Covent Garden is a

very fine late 19th century

building by the architect E. W. Godwin, who designed a great many government offices. Its

external carved brick decoration and its cupola is a good

example of the "Queen Anne

Style". It has the unique

advantage of backing on to the

only garden in Covent Garden,

which is the churchyard of

St. Peter's church. In spite of the advantages, St.

Peter's has had to be substan-

tially re-designed as seven large apartments by the developers P. L. Estates. They had the unusual idea of approaching several leading architects to produce suggested layouts for the flats. They have selected an eclectic and intriguing list of younger architects - John Robins; Chris Wilkinson; Powell-Tuck Associates; and Birds Portchmouth and Russum.

Because of the narrow nature of the former hospital the spaces are lit from both sides and the wards have ceiling heights of more than 14ft. Conversions of older buildings are highly desirable and Knight Frank and Rutley should have no difficulty selling these flats. Developers and investors are still nervous about residential development but there is much more long-term value in a fine old building turned into original flats than in any number of retail sheds.

The potential for the relatively unknown asylums is enormous. Many of them were designed by good architects as a result of architectural competitions. They were nearly always sited by the Victorians on south facing slopes in landscaped grounds, which are now at a fine point of maturity. Some of them had working farms and chapels, and all of them had several large halls. Many would make wonderful new communities that could appeal to those seeking an alternative and self-sufficient life style.

The worrying aspect of such a wholesale disposal of property is the NHS's tendency to sell off piecemeal the parts that have obvious value, leaving many of the listed build-

ings to rot.

SAVE's report should be read by intelligent developers and by Mr Stephen Dorrell, the health secretary. Mr Dorrell must have thought that he had finished with heritage - in fact his NHS estate is the biggest heritage headache of them all.

But it is also a wonderful opportunity, as St. Peter's proves.

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY

AVCO Tst FRN '98 £178.66
Akzo Nobel F1.50
Aol Advertising Promotion FRN '98 £3377.31
Banco Real 8.5% Nts '98 £425.00
Bank of Scotland Undt Prim
Citi FRN £329.00
Bottoms 3.9p
Bermuda Corp 5p
British Gas 7.14% Nts '97
£76.25
Caterpillar \$0.35
DFS Furniture 10p
Derwent Valley 1.73p
Exchequer 12.6% '98 £8.00
Finland (Republic of) 7.5% Bd
£7.57
Futura Venture 9.25%
Sovereign 2.25%
Sovereign 2.25% Bd £4.625
General Motors Acceptance Nts
Mar 20 2000 £2429.00
Graham 1.5p
Group Chez Gerard 1.65p
HCG Lloyd's Inv Tst 1.25p
Hambros Smr Asian Cos Tst
\$0.0045
Hickson Int'l 2p
Hilti 1.5p
Iceland 1.85p
Industrial Control Services 2.1p
Int'l Bank for Recs & Dev 12%
Nts '98 £120.00
Kearflex \$0.01
Mitsubishi Financ Tr A Dual Basis Bd
£14.50
Nestle 1.14
Dri-Bud Dual Basis Bd '04
\$33788.19
Merivale 2.5p
Nippon Telegraph & Telephone
7.4% Nts '98 £72.50
Do 7.4% Nts '98 £77.50
Peninsular & Oriental Steam Nav
7.74% Comd Bd '03 £36.25
Preston (Republic of) 9.6% Nts '16
£225.37
Renishaw 4.71p
S & U 3.5p
Suter 3.7p
Applied Holographics
Cochlear 1.5p
Crisper (Ireland)
DBS Mngt
F & C German Inv Tst
DHL
F & C Bank
Ferry & Sons Enterprise
Interim:
Applied Holographics
Cochlear 1.5p
Crisper (Ireland)
DBS Mngt
F & C German Inv Tst
South Staffordshire Water

■ TOMORROW

British Data Mgmt 3.75p
Britton 1.2p
Chime Comms 0.46p
David Brown 2.4p
Ford Credit Europe 8.5% Nts
£97.3000
Govt & Co 50.11
Hemleys 2.7p
Japan Development Bank 9.14%
Nts '97 £492.50
Nationwide Bldg Scy 13.5% Bd
Nts 2000 £1350.00
Nippon Yusen 7.14% Nts '95
£75000.00
Peninsular & Oriental Steam Nav
7.25% Bd 1.25p
Preston Mineral 1p
Sherwood Grp 1.3p
Thames Water Utilities Finance
10.14% Bd '01 £1050.00
Treasury 12.14% '03/05 £6.25
Wensum 1.575p

■ WEDNESDAY NOVEMBER 22

Albright & Wilson 2.15p
Arapco 2.625p
Do 'A' Non Vol 0.68p
Chase Manhattan Bd FRN 2000
\$153.33
Conversion 10.14% '99 £5.125
Doeflex 2.1p
Fried Earth 1p
Keweenaw Moore 7.25% Bd '99
£72500.00
Do 7.25% Bd 2000 £725000.00
LGS Inv 8.75% Seed Bd 20
1.7643p
Ling (John) 3p
Do Ord 'A' (Non Vtg) 3p
Loyd's 2.5p
Loyd's Bank Scr B Bd VRN '98
£176.75
Merrill Lynch 0.26
Midland Bank 2.1p
Natwest Bank Undt VRN
Do 2.1p
TSB Offshore Inv Fd Part Rd P1
£1 High Inc 2.25p
Do Part Rd P1 Int'l Bd 4.22p

Do Part Rd P1 1p Island Eqy
Fd Cl 0.6590

Do Part Rd P1 1p Stg Deposit
1.4p

Do Part Rd P1 1p UK Eqy
2.34p

Trans-Tokyo Bay Highway 8.5%
Bd '04 £418.75

Treasury 2.14% '98/01 27.0

Tweefontein And Collieries R3.26

United Inds 0.15p

Watts, Blake, Beame 4.4p

Wells Fargo St Cap FRN '98
£154.93

■ THURSDAY NOVEMBER 23

Bristol & West Bldg Scy FRN
£6.5742.23
Cardiff Auto Receivables
Section No.3 Cl A FRN '98
£179.90
Do Mezz FRN '98 £203.22
Clarke (Horace) 1.25p
Development Sec 0.8p
Domestic & General 2.3p
Molyneux Estates 1.75p
New City & Commercial Inv Tst
1.3p
RATP Grp 1.85p
Sunderland (Eco of) 11.34% Bd
£8.25.875
Trinidad & Tobago (Republic of)
12.14% Ls '98 2.125

■ FRIDAY NOVEMBER 24

Adwest

age to back
The other day, I noticed something startling about the "personal information manager" that my PC uses to keep track of appointments and things to do. In its contacts book, the package contains no field marked "phone number".

Instead, it has an entire page of numbers for each contact: two for business, two for home, and one each for fax, assistant, mobile and pager. That list - eight different numbers for everyone - is a reminder of how technology has changed the old problem of telephone tag.

Instead of being unable to reach people we want to talk to, we now have a surfeit of different ways to reach them. It can be tiresome to run through the list of possible

Cyber sightings

by Stephen McGooldin

- Info-Mine (found at www.info-mine.com) is an excellent database of international mining-related material - particularly strong on Latin America - featuring the Mining Yellow Pages and information from publications like Metal Bulletin and Mining Journal.

- Frankfurt Money Strategist (www.inistrategist.com/fms) is an English-language source of financial research focusing on German and EU-related currency and political information.

The firm offers a subscription-based service, but you can read the weekly synopsis at the Web site. Good background material.

- Barclays Bank has extended its Web presence by putting up a number of pages for its stockbroking service (www.barclays.co.uk/stock/home). Informative, but primarily a marketing vehicle, it features new issue details, information on CREST, a Stock Exchange calendar and the firm's financial and economic overview (although for some reason the Money Monitor table was last updated on August 3). Good sectoral roundup, though.

- The Law Journal Extra (www.lje.com) is a very good legal resource site with relevant issue-based forums: currently, business and legal aspects of the Internet and intellectual property rights in the electronic age.

- Details of next month's Internet World International exhibition in London - which this year is part of the Online Information '95 show - can be found at www.i2i-learn.com or through conference organisers Learned Information (www.learned.co.uk/online95).

- The Economic Development Zone (<http://edn.edn.com/edn/index.html>) at the Interactive Economic Development Network, is a gathering place for Economic Development practitioners - registration is required - with a wide range of material, including an indexed Economic Development Encyclopedia, a who's who directory and an online vacancies clearing house.

- The International Chamber of Commerce (www.usci.com/ibnet/iccip.html) provides an indexed link to various chambers around the world, a good set of informative sister sites and direct access to destinations on the Electronic Silk Road. Easy to use and interesting.

- Canadian Stock Market Report (<http://canstock.com>) is an information source covering the four Canadian exchanges. Free trial subscriptions are available for evaluation purposes.

- A searchable (in English) partial version of the official Japanese phone directory is at www.pjearnet.org/jid as a trial service for the next two years. It seems pretty straightforward, but is restricted to parts of Tokyo, Osaka and Kyoto. Useful service, but registration is required before you can use it.

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Financial Times on the World Wide Web
www.ft.com
www.usa.ft.com
Updated daily

Tim Jackson

MEDIA FUTURES

End of the line for telephone tyranny

numbers, trying each in turn in the hope of finding the right person.

So the service due to be launched in Britain at the end of this month by the Personal Number Company is likely to attract considerable interest. For a sign-up fee of £120 and a monthly subscription of £3, PNC offers something that most telephone subscribers have never considered possible: a way of giving friends and business associates just one number, which follows its owner wherever he or she goes during the day, from home to car to work and back and to as many different places as desired in between.

Strictly speaking, the service is not new. It has already been offered both in the US and in Britain, and

the technology it uses is pretty basic stuff to telephone network engineers. It is also easy to use. With a simple PIN, customers can punch in details of the phone to which they wish calls to their personal number to be directed. Yet I believe this apparently attractive service to be a loadstone idea, and believe it will be worth explaining why.

First, a caveat. In the long term, it makes good sense for numbers to be attached to people rather than to telephones, so that nobody needs to change their number when they move house or job, as one person in seven does every year. Such a service, delivered at a reasonable price, has clear benefits.

At present, the price is far from

reasonable. In the UK, callers to personal numbers have to pay the D rate, the most expensive inland tariff after mobile phones and premium-rate lines. But William Goodall, managing director of FlexTel, a Cheshire company that launched a "numbers for life" service last June, believes that the premium will fall to only 1p a minute above the landline cost within a decade.

What about short-term personal numbering - the kind that forwards calls to different places in the course of the day? Plumbers, doctors and travelling salesmen will undoubtedly find that it makes their lives easier. One of the Personal Number Company's first subscribers has been a vicar, who travels from parish to parish filling in

for absent clergymen but still wishes to stay in touch with friends and family.

But most people's livelihoods, thankfully, do not depend on being available all the time to any Tom, Dick or Harry who wishes to reach them. And far from needing to be more accessible to telephone calls, many of us would benefit from being harder to reach.

Proof of this can be seen in the fact that people at work who used to concentrate on something that is difficult or time-consuming are often forced to go home in order to avoid the constant interruptions of the phone. Even at home, many people who would not hesitate to tell someone who interrupted their dinner by knocking at the front

door to go away will rush to the telephone as soon as it rings.

Thankfully, technology itself is beginning to set things to rights. Calling-line identification, known in the UK as CLI and in the US as caller ID, allows telephone subscribers to see who is calling before they particularly want to avoid or simply anyone they do not know.

Once again, this technology is far from rocket science. But it could diminish the tyrannical role that telecommunications have come to assume in our lives. Instead of picking up the phone just in case the matter is important, we will be able to treat calls with the same discrimination we apply to visitors who turn up without appointments. And for the first time in a century, the balance of power between calling party and called party will be restored.

Tim Jackson can be reached at Tim.Jackson@pobox.com

Africa's tentative approach to the Net

Martin Mulligan joins journalists online in Ghana

When talk turns to the Internet, Africa is not the first place which leaps to mind. Far from being at the cutting edge of electronic communications, the debtor nations of the world's second largest continent are popularly perceived as bedevilled by power cuts, poor infrastructure and lack of trained personnel.

It comes as a surprise, therefore, that Accra, Ghana's capital, is fast evolving into an Internet hub for west Africa. William Tevie, deputy director of Accra's only full-service Internet access provider, Network Computer Systems (NCS), is adamant about this. His company offers what he describes as an international gateway to global communications.

NCS already boasts 140 subscribers in Ghana and will break even when it has 200. These subscribers are at present a cosmopolitan blend of embassies, chief executives, non-governmental organisations, companies and ministries. Tevie says Kojo Yankah, Ghana's deputy minister of information, must take much of the credit for Accra's Internet pre-eminence as he has promoted local adoption of the technology.

Ghana, Tevie emphasises, is only the fourth sub-Saharan African nation to go online, after South Africa, Botswana and Zambia. These four now have full Net access. Last August Tevie spent a day

introducing the Net to an audience of 18 Ghanaian journalists at the company's premises on Accra's leafy Sixth Avenue. NCS's offices are modern and well equipped, though they are found at the end of a red dirt track. Their curtains were drawn against Accra's ochre dust and the broad heat as Tevie sketched with broad strokes the technological environment that Ghana has now entered.

Ghana's local Internet structure and capacity is in advance of French west Africa's, he declared, adding that Kenya leads in terms of e-mail, with daily non-commercial traffic of 1MB. But electronic networking in the 14 countries of French-speaking Africa consists primarily of e-mail, bulletin boards, data base access, news feed and small file transfers.

True Internet connectivity, Tevie insists, offers much more, including instant access to messages, the possibility of browsing by hypertext links, access to newsgroups on thousands of subjects by means of news reader programs, and even video transfer.

The francophone west African countries, he says, remain tied to a clumsy system, managed for them by the government-linked French research entity Institut Français de Recherche Scientifique pour le Développement des Techniques et des Matériaux (ORSTOM). Its odd acronym.

The pathways of this system are

all routed via Montpellier, a laborious and inefficient diversion. The chief disadvantage is that it is run on a so-called "store and forward" basis. All messages are collected and sent to Montpellier "maybe once a day or twice a day," says Tevie. The francophone system also lacks World Wide Web, has limited research possibilities, and its protocols are altogether less flexible. Ghana's dizzying Internet options are light years in advance of this, says Tevie.

All good stuff, but the journalists he was addressing, who receive an average wage of less than £100 per month, would have to part with a year's salary to buy even a lap-top computer. The technology may appear promising and tantalisingly available, but it is not affordable: only individuals of very high net worth in Ghana have access to it.

In other words, far from being a liberating, empowering influence, the Internet's arrival in Ghana seems only to have consolidated the status quo. NCS charges an annual registration fee of \$100 (prices were not given in cedis, the local currency), and a monthly usage fee of \$10. It was cold comfort, after this, to hear Tevie's claim that communities of users are forming within Ghana which cannot be controlled by large business interests; or that all information was transferable to any global address in milliseconds.

But then Ghana, after all, is not the only place in which an income gulf separates Internet users from non-users. How many ethnic Americans can even access existing print-based resources in their inner cities, let alone electronic media?

Nor did the Internet begin life as a philanthropic enterprise. Quite the reverse: it originated in the 1970s in the US as a government project to establish a self-healing system of networks designed to survive a nuclear strike.

The jolly province of today's

cybersurfers, in brief, cheerfully dubbed "the information superhighway" by US Vice-President Al Gore, is in fact a child of the cold war and of nuclear stalemate.

At the journalists' meeting in Accra, Andy Bulley, NCS's chief technician, demonstrated the Internet's possibilities. Intrigued, the journalists crowded round his multi-coloured screen for their first encounter with the new technology.

After a dutiful dalliance with the FT's home page, Bulley invited the Ghanaians to venture online. What

would they choose to do? In similar seminars in Britain and in north America, newcomers tend to hit the White House home page, with its icon of Socks, the Clinton's cat, or to head for the Playboy page.

In Accra, consensus quickly emerged. The group would create and send a signed document to Nigeria's leader, General Sani Abacha, protesting at human rights violations in his country.

It was a small but luminous illustration of the best possibilities of the new-media era.

Pupils accelerate from classroom to infobahn

Net literacy tops the agenda, says John Authers

Pupils in the UK may soon have a chance to move from information highways and by-ways on to the education superhighway.

Last week, the government announced that it was distributing £2m between 23 pilot projects to link schools to broadband networks. Most already have firm backing from both public and private sector partners, and some have already started.

This followed a six-month consultation throughout Britain, which revealed enough problems to douse enthusiasm. Apart from the costs, schools were also worried about the difficulties of managing their own networks. New technology would be of no use if teachers could not use it with confidence. But importantly, everyone seemed to recognise the need for children to develop network literacy.

The intention is that the best pilots will form the backbone of the new broadband superhighway which is to replace the Internet, with which many schools are already experimenting. All the pilots use at least "intermediate band" technology (such as ISDN lines), and the government hopes for a "progressive migration" to more powerful connections.

By experimenting with the educational applications now, the government hopes to avoid repeating the "display computer" phenomenon seen in earlier well-intentioned drives to introduce schools to new technology. Schools would gratefully take delivery of their new computers, but there were not enough to use in lessons, and the staff did not know enough about how to use them, so they stayed in supply cupboards. They would only see the light of day when on display to parents at open days.

Arguably the most ambitious project involves British Telecommunications in a joint venture with ICL, the computer and software company. They are linking 11 schools in Withywood, a suburb of Bristol, using a range of online services. Multimedia personal computers provided to each school (so that there is at least one computer for every six pupils) will be linked together within the school, on local networks, and externally to the

Internet and special educational databases. These, in common with several other pilot projects, will include integrated learning software packages. The packages lead the new generation of educational software, and allow computers to fire questions at pupils, mark the answers, and then calibrate their next questions to the child's ability.

The package also includes desk-top video-conferencing, which will link the schools, but will also allow teaching support from the University of Exeter's school of education.

The entire service is managed at a distance by ICL, which will provide an education online help-desk.

This aims to address all the chief problems. According to David Oliver, general manager of ICL Lifelong Learning: "One of the key things to come out of this will be that teachers will not perceive infrastructure management to be an issue. Instead, the issue will be what they can do with it."

He points out that finding a full-time systems manager for a school network of this sophistication is a crucial problem, particularly in primary schools where teaching staffs are rarely into double figures.

The arrangement in Withywood allows schools to outsource the problem altogether. Meanwhile, ICL and BT are hoping they can find ways to reduce costs through economies of scale.

The educational potential is obvious. Teachers can give lessons at a distance on a large screen, making multimedia presentations as they do so, for example. Other inner city projects cover Birmingham and south London.

But unlike most highways, the educational one is starting by joining very rural and isolated destinations. This reflects the first uses of "distance learning" for children, which were designed to help give children in remote areas such as the Australian outback more contact with their peers.

Projects to win backing include a video-conferencing network for Argyll and Bute in Scotland, the Powys LEA Project (part of the "Rural Wales Network") which will provide a direct intermediate band link to the internet and will allow

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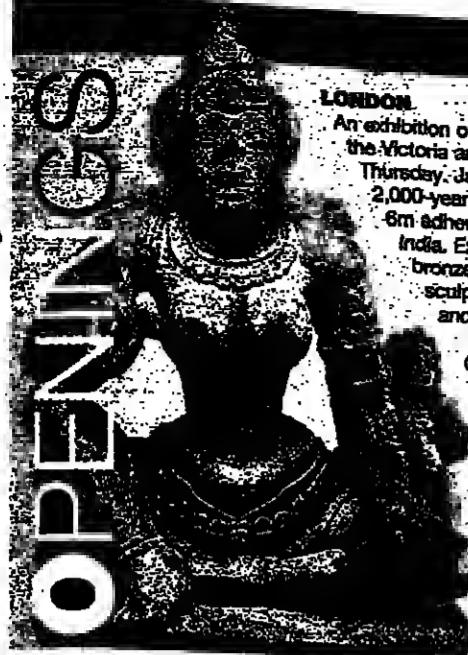


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LONDON

An exhibition of Jain art opens at the Victoria and Albert on Thursday. Jainism has a 2,000-year history and about 6m adherents, largely in India. Exhibits include bronze, stone and wood sculpture, manuscripts and paintings.

The National Gallery's show to mark the centenary of the National Trust opens on Wednesday, with paintings from Trust houses including work by Titian, Andrea del Sarto (far right) and Rembrandt.

HUDDERSFIELD

ROTERDAM

Courtney Pine, one of the most dynamic of the new jazz generation, begins a European tour on Saturday at Rotterdam's Nieuwpoort. Billed as a collaboration between jazz and hip-hop, the show features the scintillating hard-bop piano of rising US star Cyrus Chestnut and two DJs at the mixing desk. The 13-date tour continues through Germany to Prague and on to the UK.

ARTS

NEW YORK

New York City Ballet starts its winter season at the State Theater tomorrow with a benefit performance of repertory works. From Friday, Balanchine's splendour "Nutcracker" plays until December 31; a helter-skelter of snowflakes will fill during those six weeks. Thereafter, repertory performance of 42 ballets will be on view until February 25. Here's riches.

AMSTERDAM

Dutch decorative art of the period 1655 to 1855, known for its hybrid forms and Pavlovian styles, has long been dismissed as "bad taste", in its winter exhibition, opening on Saturday, the Rijksmuseum offers a chance for reassessment. Entitled "The Age of Ugliness", the show includes 180 examples of furniture, silver, glass, textiles and ceramics, with several masterpieces from the Dutch royal collection.

BERN

On Sunday, Bern's municipal theatre stages the first production outside Germany of Berthold Goldschmidt's "Der gewaltige Hahn". The opera was premiered at Mannheim in 1932 and not seen again until last year, when it was triumphantly revived in Berlin. The 92-year-old composer, born in Germany but a British national since 1947, will be travelling to Switzerland for the first night and several related events.

CHICAGO

Since his appointment as principal guest conductor, Pierre Boulez's annual visits to the Chicago Symphony Orchestra have become a focal point of the city's music calendar. In his latest three-week residency, starting on Friday, he will conduct four programmes, ranging from such un-Boulezian territory as Shostak and Richard Strauss to French compatriots Varese, Manoury and Ravel.

Mathis in mufti

David Murray reviews Hindemith's 1938 magnum opus

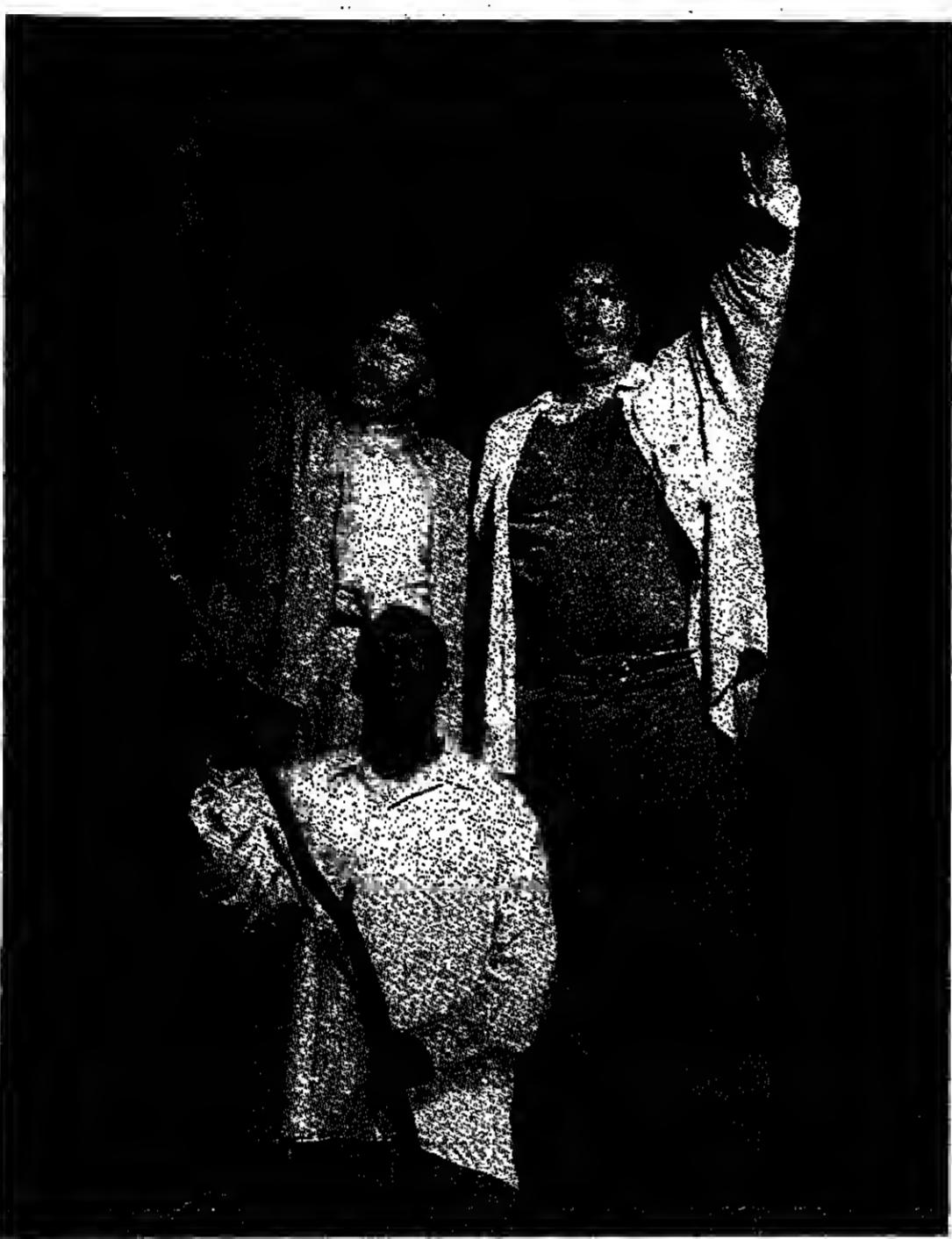
With deft timing, the Royal Opera's new *Mathis der Maler* – the first professional staging of Hindemith's 1938 magnum opus in Britain – opened last Thursday, the very day of the composer's own centenary. It had to be an event, and was clearly meant to be: the large cast thoughtfully chosen, a currently famous producer and a young conductor who is a rising star.

In the event it was an event, but for slightly unexpected reasons. Peter Sellars' production was almost reverent, in its small-scale way, making no mark of its own but starving the action of colour and breadth. Hindemith's score, as thrust home by Esa-Pekka Salonen and his excellent cast, was what compelled attention and admiration. Not all of the audience found that enough to anoint them through this 4-hour performance: there were discreet departures after part 1, and more after part 2.

Hindemith's "Mathis the painter" is the historical Mathias Grünewald, whose great Isenheim altarpiece is preserved now at Colmar. Writing his own libretto, the composer represented him as enmeshed in the Peasants' Revolt in Germany (1524-5) – a famous and significant episode there, if less so here.

Mathis is in the service of Cardinal Albrecht von Brandenburg, but after a year's sabbatical in retreat, he joins the cardinal's service without conviction, examines his conscience agonisedly, realises that his vocation as a superlative painter must take priority over his ineffectual social instincts, paints the teeming panels of his Isenheim altarpiece – darkly enriched by his grim experiences – and then packs his kit away, peacefully resigned to death. There are some sub-plots to salve the affair.

The closest prompting for Hindemith's piece surely came from Hans Pfitzner's epic 1917 opera *Palestrina*, regularly performed in Germany but still awaiting a British staging, in which that virulently anti-modernist composer also identified himself with a great artist of old. Where Pfitzner, however, portrayed his "Palestrina" as a man who held fiercely to timeless musical truths, against philistine ecclesiastics on the Council of Trent, Hindemith's *Mathis* is trapped amid great political upheaval, between



Stig Anderson and Alan Titus (top) with Michael Daniels

the high culture of the (Catholic) ruling class and the desperate needs of the (Lutheran) peasantry.

At Covent Garden we see hardly any of that. Except in the surtitles, the history is filleted out, reduced to token skirmishes. Everybody from the Cardinal down is dressed in modern mufti, mostly anonymous suits. George Tsyden's set, all scaffolding and glass, suggests no time or place; the choruses sit in their street clothes at either end of the stalls circle, removed from what little action there is.

It is boring to watch, and frustrating because the sweep and energy of Hindemith's score predicate so much more. One could guess that Sellars would disdain the old-fashioned stage literalism. Hindemith expected, but he has found no adequate substitute for it. The monstrous book-burning becomes a dull

Guy Fawkes' Night bonfire; even Mathis's climactic dream of himself as subjected to the temptations of St. Anthony, is just walked through. A silent black mma dog Mathis's heels throughout being "expressive", an addition which is more embarrassing than helpful.

Still, there is the score, which Salonen expounds with fine verve. The baritone Alan Titus makes a brooding, anguished Mathis, and Stig Anderson a brightly anxious Cardinal (very stylishly sung). As Mathis's beloved Ursula, Inga Nielsen is warm and affecting; Christina Oelze brings lovely feeling and freshness to her unlucky Regina. There is a doughty peasant leader from Thomas Young, and assured character-sketches by Gwynne Howell, Peter Rose and Robin Leggate.

The solo arias are delivered with

powerful conviction, and the ensembles are sometimes thrilling. The choruses at least sound good, in their detached locations.

Yet little of the music is really valid – much of it was completed for orchestra before the voice-parts were added; Hindemith's opera is of course about himself and the whole score is at once a manifesto and a vindication of his music-making (denounced by the Nazis as "degenerate"). It is seriously impressive, and greatly worth hearing, especially at the specially reduced prices the Royal Opera offers for it. You just have to be prepared to eat out the exiguous staging with your imagination.

Supported by the Foundation for Sport and the Arts, in association with Rome Opera: further performances to 6 December

Grieg, Albéniz, Debussy, Stenhammar, Ravel, Cadman and Villa-Lobos; 7.45pm; Nov 23 Royal Festival Hall Tel: 44-171-9804242

● Philharmonia Orchestra: with conductor Dzong Victorin Yu, the Philharmonia Chorus and cellist Andrew Shulman perform Tchaikovsky's "Romeo and Juliet Fantasy Overture" and "Rococo Variations", and Rachmaninov's "The Bells"; 7.30pm; Nov 21 EXHIBITION Victoria & Albert Museum Tel: 44-171-9388500

● The Peaceful Conquerors: Jain Art from India: Jainism is one of the three major religions to originate in India, along with Hinduism and Buddhism. This travelling exhibition will present examples of Indian sculpture and painting produced in the Jain tradition from Nov 23 to Feb 18

OPERA & OPERETTA Royal Opera House - Covent Garden Tel: 44-171-2401200

● Fedora: by Glorioso. Conducted by Edward Downes and performed by The Royal Opera. Soloists include Maria Guleghina, Rosemary Joshua, Plácido Domingo and Maria Callas; 7.30pm; Nov 21, 24; 27, 29

(Pastoral); 8pm; Nov 22, 24 (11am), 25

Singers: perform works by Glenn Miller; 8.30pm; Nov 22

OTTAWA

JAZZ & BLUES National Arts Centre

Tel: 1-613-295-5051

● Glenn Miller Orchestra: perform works by Glenn Miller; 8pm; Nov 21

PARIS

CONCERT Salle Pleyel Tel: 33-1-45 61 53 00

● Orchestre de Paris: with conductor Yehudi Menuhin, soprano Anne-Marie Webster, tenor Ian Caley and bass Michel Brodrard

perform Haydn's "Symphony No. 101 (Clock)" and work by Landowski; 6.30pm; Nov 22, 23

Théâtre du Champs-Élysées

Tel: 33-1-40 28 28 40

● Baden-Baden Rundfunk

Orchestra: with conductor Michael Gielen, the Rundfunkchor Berlin, soprano Laura Alkin and bass John Bröcheler perform Schoenberg's "Die glückliche Hand" and "Die Jakobileiter"; 8pm; Nov 21

OPERA & OPERETTA L'Opéra de Paris Bastille

Tel: 33-1-44 73 13 99

● Tosca: by Puccini. Conducted by Seiji Ozawa and performed by the Opéra National de Paris. Soloists include Galina Gorchakova, Keith

Olsen and Renato Bruson; 7.30pm; Nov 21

OPERA & OPERETTA Wiener Staatsoper

Tel: 41-21-4424980

● Le Nozze di Figaro: by Mozart

Conducted by Michael Schoenwandt

and performed by the Wiener Staatsoper. Soloists include Adrienne Pieczonka, Julianne Banse and Jean-Luc Chaignaud; 7pm; Nov 22

■ STRASBOURG

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● Herb Miller Orchestra and

as good as CBTO. I'm astonished at how low subsidies are and what is expected to be delivered."

This brings us naturally to comparisons; to Vick's conviction that the arts' cake is sliced in favour of London as opposed to the regions. "Scottish Opera now does something like a half of what it did when I joined it. Meanwhile Covent Garden and ENO flourish – all to the good; but none of them has had to cut back by 50 per cent. The capital is always shored up at the expense of those outside London."

I ask if he is pessimistic. He gazes out of the window for some time. "I'm not pessimistic by nature," he answers, and remarks that he has returned from staging *The Rake's Progress* in Japan "where it operates in a perfectly immaculate way in a cultural society, where the workforce is polite, educated... I did *Mahagonny* in Paris, at the Bastille. There are some problems but there's enormous support in manpower, finance, in a magnificent new theatre. You cannot but notice how poverty-stricken your own country is. You end up fighting for rock-bottom chorus rehearsal requirements for a difficult 20th-century piece, *The Midsummer Marriage*, at Covent Garden. I remember the term 'brain drain' in my adolescence. I understand why they did it. The differential is shocking. At the New York Met you're never denied rehearsal conditions because of money... I see no prospect of work conditions getting better here. It's depressing."

There is one glimmer of hope. "Glyndebourne combines the enlightenment of the highly subsidised with private funding. Nowhere else in Britain offers that funding, so it continues to be the benchmark of working conditions and practices... And for me it represents the opportunity to do a series of productions on a home base. I was beginning to tire of endlessly going from large opera house to large opera house." He sighs. "In Britain, I love the Royal Opera House. I'm very attracted to the Coliseum. They're full of good people. The big issue is giving those people a chance to do their jobs well."

"It's a perpetual struggle. I promise as much as the next man. It means a fairly stormy life. That's why it's a sheer pleasure to work in Birmingham with people I've collaborated with all around me. Technicians, costume people – they all share my enthusiasms and ideals. It means many of the daily battles of the large opera house don't exist. I decided to leave Scottish Opera when the managing director asked my agent to ask me to be less of an idealist." CBTO makes a good reply.

The City of Birmingham Touring Opera's production of Verdi's *Falstaff* opens on Wednesday.

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COMMENT & ANALYSIS



Michael Prowse · America

Endangered species

Modern electronic technology could mean that the days of academics at higher-education institutions are numbered

The future for American professors – indeed for academics everywhere – looks bleak. I say this with a certain sadness because I have the greatest respect for academic ideals. But the plain truth is that they are selling a product that is ridiculously expensive and ill-suited to the needs of a rapidly changing economy.

You will probably have heard a lot about the untrained growth of US healthcare costs. Well, academics are putting doctors to shame. The cost of college tuition has risen 174 per cent in the past decade. That is more than three times the increase in consumer prices, which rose by 55 per cent. The cost of tuition in a top private university is now about \$20,000 a year. Since 1980, borrowing to pay for higher education has doubled and is now running at about \$25bn a year.

This cost explosion is outrageous if you recall that prices are falling in most other information-based industries. Why is academia unable to control costs? Largely because it refuses to embrace technological change. Teaching is still organised in much the same way as in Plato's day. Thousands of lecturers stand in classrooms delivering lectures. Millions of students travel hundreds of miles so as to be physically present on campuses. Universities are still associated with particular buildings – libraries, lecture halls and dormitories.

In the age of the Internet none of this makes sense. Most education – I would make an exception for performing arts – can now be enjoyed in the comfort of one's home via the computer screen, and at a fraction of the cost at which it is sold by the Harvards of this world. One academic can prepare and deliver a course to an unlimited number of students worldwide. And there is growing evidence that most cognitive skills can be learnt more effectively on screen than in the lecture hall. With interactive software

and multimedia technology, courses can be tailored precisely to the needs of individuals – something impossible in the classroom.

Conventional universities seem absurdly outdated in another respect. They are still wedded to the idea that learning should precede employment, with the length and quality of education determining the quality of job subsequently enjoyed. This notion has been taken to an extreme in the US, where the minimum requirement for a good "professional" job is now a bachelor's degree plus a law degree, MBA or doctorate. Most able students now spend anything from six to 10 years earning paper diplomas before entering the job market. The financial burden, given the level of fees, is excruciating.

The notion that education must precede employment is vigorously attacked by Mr Lewis Perleman, president of the Kanbrain Institute in Washington and author of a visionary 1992 book, *School's Out* (published by William Morrow, New York), which predicts the demise of conventional education. The word "kanbrain" is taken from *kanban*, the Japanese term for the "just-in-time" inventory management techniques that have revolutionised factory production. Mr Perleman argues that modern electronic technology

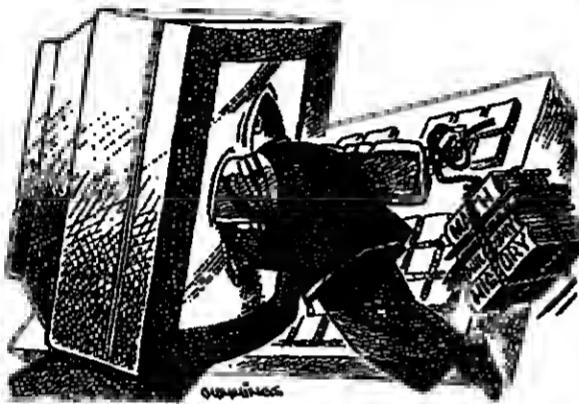
has made just-in-time profitable business for companies in the information business – a far bigger money spinner than, say, home banking.

What is to stop companies such as Microsoft, the Seattle software giant, entering the higher education market immediately and providing screen-based education at a fraction of the current cost? There are two main obstacles. The first is that educators form a kind of closed shop: the accreditation committees that determine what counts as a *bona fide* university will fight to protect the market of existing institutions, just as unions fight to protect jobs in declining industries.

The other obstacle is the attitude of employers. People pay enormous sums for higher degrees, not because they cannot obtain the knowledge elsewhere, but to give themselves an edge in hyper-competitive labour markets. Higher degrees serve a function akin to that of the exotic plumage of birds: they are primarily a means of attracting attention, of signalling that you deserve special attention.

Yet simple tests of cognitive ability can be administered in less than 30 minutes. Such tests, which can be tailored to the needs of particular companies, are a better guide to job performance than academic degrees. If employers were willing to hire on the basis of competence to do a particular task, rather than paper credentials, a shift to cheaper and more convenient electronic education could occur quite rapidly.

Technology, in the end, has a habit of proving decisive. The horse and buggy was a fine means of transport in its day. Yet it was swept away by the motor car. In due course, just-in-time electronic education, delivered to your living room by commercial companies, will undermine the most hallowed names in higher education.



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LETTERS TO THE EDITOR

Number One, Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers and users of the Financial Times. Please keep them brief and to the point. Please send them to: 'Letters to the Editor', Financial Times, Number One, Southwark Bridge, London SE1 9HL. Please include a daytime telephone number and a daytime address. Please note that we cannot guarantee to publish every letter.

Waigel's plan for EU fines is on the right track

From Mr Stephen King.

Sir, You are right to note in your editorial "Waigel's Euro conditions" (November 14) that German finance minister Theo Waigel is preaching to a sceptical German public. You are, however, too dismissive of the German public's continued concerns over monetary union.

You justify your disbelief of fines by showing their possible effect on the UK and France in the early 1980s, when both countries saw budget deficits in excess of 6 per cent of gross domestic product.

However, if fines had been in existence then, both countries would have had a stronger incentive to keep their public finances in order. Germany has

a reasonable concern here: its budget deficit peaked at just 3.8 per cent in 1983 despite the pressure of reunification.

A "no bail-out" clause may be preferable to fines if it is credible but, in reality, there must be doubts. Imagine a situation where a country is close to defaulting on its debt. A European central bank whose sole concern is price stability might be happy to allow the default to happen. But, in the real world, central banks also operate as lenders of last resort.

On this basis, a financial implosion in any one country which carries risks for Europe as a whole would not be allowed to happen.

Stephen King, deputy chief economist, James Capel & Co, Thames Exchange, 10 Queen Street Place, London EC4R 1EL, UK

surely be influenced by the monetary-fiscal mix. Any attempt by a European central bank to offset fiscal profligacy through monetary discipline could easily see a repeat at the European level of the pain of *franc fort*.

The imposition of fines may not be the ideal. But Mr Waigel's proposals emphasise that the balance between monetary and fiscal policy is a real issue which, as yet, has not been fully resolved.

Stephen King, deputy chief economist, James Capel & Co, Thames Exchange, 10 Queen Street Place, London EC4R 1EL, UK

Why Italy must rewrite its constitution

From Mr Piero Sierra.

Sir, I congratulate you on publishing Mr Sergio Romano's article entitled "The real losers in Italy" (Europe, October 31). Having been in business for several years in Italy as chief operating officer and board director of a leading Italian corporation, I have developed views of the complicated political context of Italy which largely coincide with Mr Romano's.

However, one should emphasise that the problems of harnessing the existing forces at play are inextricably linked with a structural flaw of the system which has its origin in the constitution.

The constitution of 1946 was devised in such a way as to prevent an authoritarian revival. It gave all powers to parliament, which in turn voted proportional electoral laws ensuring automatic survival of a multitude of parties, led by self-perpetuating power structures.

Over the years, however, its weaknesses emerged, in the form of executive paralysis, corruption, a stream of ill-conceived legislative compromises, and vacuum-filling takeovers by a variety of power groups, including government and state-owned bureaucracies,

tightly knit big business, unions and many others.

It is obvious that we have the wrong system for the social, political and cultural context. The gearing mechanism between the voters and government activity is permanently jammed. All we can expect from the current tinkering is more of the same: ideological balkanisation, proliferation of parties, musical-chair conditions, a string of political betrayals, temporary governments and a steady loss of infrastructural competitiveness.

The solution exists but is difficult to implement: do not try to fix parliament; redefine its powers and let it exercise them in its own ways.

Meanwhile, give balanced powers to a strong executive branch led by an executive directly elected by the people, in a two-turn election, with a four- or five-year stable mandate. It is not too late to achieve the required constitutional changes through an agreement of the two current major parties. They are opposed ideologically, but in the long run each stands to benefit from the strengthening of bipolarism.

Piero Sierra, Via della Spiga, 46, 20121 Milan, Italy

up. The ESAF provides a lifeline in these desperate circumstances.

Assessing the impact of ESAF programmes is fraught with practical, empirical and conceptual difficulties; not least among which is the fact that its provisions differ from country to country.

However, two salient thoughts must engage our minds: first, this is the most effective and efficient path to economic recovery; and second, world SSA countries reap the benefits of ESAF given the current global trade environment (where the costs of goods and technology are geometrically higher than those of SSA exports)?

Raymond Gilpin, national policy and research economist, UNDP Economic Management Project, Freetown, Sierra Leone

TV watchdogs everywhere

From Mr Anthony Mayer.

Sir, Christopher Dunkley (Television, November 15) laments the excessive number of watchdogs looking after the content of television broadcasting in the UK which, he claims, behave like a nanny for an audience of big babies.

Yet, with a mostly advisory capacity, review groups can also serve to generate healthy discussions over broadcasting content and style. Equivalent watchdogs exist throughout continental Europe in the form of official or semi-official public review bodies, even if they are less often denounced than in the UK, while a US counterpart is provided in the self-censorship of editorial boards, or programming committees subject to politically correct and audience-maximising demands (while minimising controversies or litigation).

As for sexually explicit material on the air, the

country that launched the mini-skirt and the (1970) advertisement of the pregnant man should not be scared at the thought that some of the public may still, rightly or wrongly, want protection from an automatic exposure to the lowest common denominator. Broadly speaking, there is no such thing as pure freedom in this sense; for instance, child pornography is near universally banned, while sexually permissive Sweden restricted Spielberg's film *ET* to audiences above age 13 – because of the children's foul language and the offensive image of a hanging adult wurd.

In short, it is a subjective notion as to where to draw the line and who is entitled to draw it – but not a simple all-or-nothing principle.

Anthony Mayer, 308 West 103 Street, 10B, New York, NY 10025, US

Company attitudes too casual

From Mr M.R. Pike.

Sir, I have had several dealings with UK companies recently and have been left feeling dissatisfied after each encounter. The final disenchantment occurred when I called two Dutch and two British companies asking for product information.

Representatives from all four said that someone would contact me the following day and, indeed, by 10am the following day both Dutch companies had called. Seven

days later I was still waiting to hear from the British.

Does Mr Michael Heseltine,

the deputy prime minister,

seriously believe that Britain

can be a centre for European enterprise when British companies take such casual attitudes to prospective customers?

M.R. Pike, c/o Mervyn K. Wynants, Zuurenbergstraat 72, 2010 Antwerp, Belgium

Samuel Brittan

Illusion of budget control

The main surprise in next week's UK Budget is pretty well known by now. The chancellor will announce "tax cuts".

These will appear to be financed by cuts in intended spending. Despite the borrowing overrun in this financial year, the budget deficit will seem to be on a declining path. There will be something in it for all wings of the Tory party and for rich, poor and middle class alike. All that will be left is for the financial markets to applaud and interest rates to come down soon afterwards.

Alas, I am afraid that this will turn out to be one of those Budgets which go down well on the day, at least with the faithful, and bear less and less inspection as time goes on. It goes without saying that the so-called public spending cuts will need to be examined with a magnifying glass.

Because there will be so much that may not hear examination, it is all the more important to avoid bogus debating points. One example would be to censure the government merely for reducing the contingency reserve of £5bn (£8.5bn) for 1996-97 pencilled into its medium-term projections. It is normal to have a large reserve for a distant year and to reduce its size as that year gets nearer. What we will need to look for in the small print is anything like an unusually large reduction in the size of the reserve to less than £3bn.

that once again there has been an increase in public spending and that the government is unable to cut it or even hold it in real terms except in emergencies, such as when the International Monetary Fund intervened in 1976.

The reality, however, may be rather different. For the GDP deflator may not be at present a good guide to government costs. Social security payments are adjusted by the headline retail prices index, which has risen a good deal more. So, too, have the direct costs of government purchases. It might be tempting for the Treasury to invent a new measure of government costs to defuse, or confuse, the issue.

More penetrating criticism is made of fiscal strategy in a paper by Professor Nick Bosanquet, *Public Spending into the Millennium*, just published by the Social Market Foundation (SMF).

The author argues against the "illusion" that public spending is under control. A glance at the track record helps. General government expenditure was expected by the Treasury last summer to be running this year at 41.3 per cent of GDP. But it was originally projected to be around 39.5 per cent of GDP as long ago as 1992-93 and to be on a declining path – the opposite of what occurred. The 3.8 per cent goal has been pushed back beyond the horizon.

Of course the recession helps to explain the spending hulge of the early 1990s. But Bosanquet points out that it is not only supposedly cyclical spending, such as unemployment

benefits, which increase in recessions. Expenditure control slackens across the board and it is very difficult to retrench afterwards. Bosanquet reckons that in the next recession the public spending ratio could easily rise to the 45 per cent level seen under Labour and in the early 1980s.

A less obvious expansionary force is that of the private finance initiative for drawing private sector funds into infrastructure projects. This creates a pressure group for higher spending in the heart of the corporate sector itself. Another surprising source of expansion comes from the very improvements in the public services and the user-friendly attitudes promoted by the Citizen's Charter. These are boosting public demands on health and education.

There are computations which suggest that tax increases on the poor are more than balanced by the progressive nature of welfare spending, which is worth more to the poor as a proportion of income. But here, Bosanquet, who has been specialising in health economics, is suspicious. For if poor people take so much and receive so much from the state, they do not have a good deal of scope to take initiatives on their own or in conjunction with the public services. Bosanquet – who has in the past written very eloquently against New Right economics – is afraid that state dependency will start creeping up again and that the Thatcher years will turn out to have been a temporary plateau.

JP/11/95

COMMENT & ANALYSIS

FINANCIAL TIMES

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Monday November 20 1995

The Chinese challenge

China's announcement yesterday of important steps to liberalise trade and foreign investment is more than a move towards further integration into the world economy. It also demonstrates the leadership's capacities and intentions. Further growth and reform seem almost certain. If managing this process is a challenge for its leadership, adjusting to it is quite as daunting for the world at large.

Today's survey in the Financial Times shows why China's leadership has grown palpably more confident over the last year. It has already weathered the first storms of the post-Deng era.

One of these was cooling the overheated economy. After Deng Xiaoping's journey to the south in 1992, real gross domestic product expanded at the extraordinary rates of 13.6 per cent that year and 13.4 per cent in 1993. Inflation's rise towards the 21.7 per cent reached in 1994 showed the economy was overheating. The response was the package of measures introduced in mid-1993. These have worked: overall inflation should be below the target of 15 per cent this year, and non-food inflation has disappeared. Meanwhile, economic growth slowed, but merely to 11.8 in 1994 and perhaps 10 per cent this year.

Mr Zhu Rongji, the executive vice-premier in charge of the economy, has reason to feel pleased. Wisely, he refuses to show overconfidence. He knows how easily China's semi-reformed economy – with its tens of thousands of bankrupt-proof state-owned enterprises, less-burdened financial system and revenue-starved government – could slip the leash.

Market-led growth

Yet, for all the difficulties, it would be wiser to bet on continued rapid growth than on the reverse. The Communist party's future rests on successful market-led economic growth. It may attempt to influence the pattern of development, but will not – probably cannot – halt it.

If the leadership fears failure, how much more does the rest of the world fear success. It will transform everything. From that reality there can be no escape. The only question is how to respond.

In trade, China's challenge is

obvious. Already the world's 10th largest trading country, China might be fourth by 2000. Foreign exchange reserves have risen from less than \$20bn in mid-1993 to \$72.9bn at the end of October.

The immediate issue is how to complete China's long drawn-out negotiations for membership of the World Trade Organisation. There are huge potential benefits to success. Not only would China be involved in – and responsible for – the trading system, it would also have to accept significant legal and administrative obligations. Chinese reformers should see such requirements as an invaluable weapon in their own hand. So should outsiders.

Difficulties arise

This, however, is the long-run view. In the short term, difficulties arise over many issues. It is not just difficult to reach agreement; partners fear that agreements would not be enforced. Western music publishers argue, for example, that piracy remains rife, notwithstanding the agreement of copyright reached between the US and China early this year.

Yet if the world decides to wait until China has become a modern, law-based state, it may not be in the WTO for years. That would be foolish. What must be done, instead, is to agree on the standards China should reach, along with a timetable. Yesterday's announcement of a sharp cut in tariffs, and elimination of many import quotas, is a first step. Further liberalisation will be required, including in its markets for services.

China is indeed a developing country, as its government argues, but one unlike any other. It must offer more liberalisation and more self-discipline than the others, because it is potentially more disruptive. But it cannot be asked to show greater respect for WTO principles than its major partners have ever managed themselves. Any special safeguard mechanism against its exports must be kept at the end of a fax machine or whatever communications are used.

For more than three centuries, the London insurance market has sheltered commercial policyholders around the world from disasters, crime and other perils. The close proximity of several thousand underwriters and brokers in the City has made the London market an important part of the UK financial services industry.

At its centre is Lloyd's, where 170 insurance syndicates offer policies covering risks from pianists' fingers to oil rigs. In addition, more than 100 insurance companies also operate in the market, many of them in the form of international insurers.

Brokers who generate business from around the world spread the risk with several Lloyd's syndicates or insurance companies. Each insurer may take, perhaps, a 5 per cent share – generally a much smaller share than insurers take elsewhere in the world.

The advantage of such a "subscription market" is that big risks – North Sea oil rigs or a fleet of ships – which no single insurer could underwrite alone can be covered quickly and easily. But the subscription approach creates a fragmented structure that involves costly duplication. Complex and detailed information is circulated among many parties, with information often having to be rekeyed into different computers.

That problem is exacerbated by having three trade organisations.

Powerful case for referral

Ministers will soon decide whether to refer the two most controversial bids in the electricity sector to the Monopolies and Mergers Commission. They should have no hesitation in doing so. If they reject a referral, it will not only jeopardise the goals of the electricity privatisation, but will also suggest that the government has little commitment to developing the vigorous competition policy the UK needs.

Electricity influences the price of almost every product in the country and every person's cost of living. Of the recent takeover bids for regional companies, those by PowerGen and National Power, the generators, for Midland Electricity and Southern Electric, pose particular concerns. They would leave the generators that own much of the capacity in the wholesale market ("the pool") – in control of a slice of distribution and supply. Distribution – control of the wires to customers' premises – is a natural monopoly, while the retail business of supply remains a regional monopoly until 1998.

Such vertical integration threatens the aims of privatisation: to stimulate competition in generation and supply, while enabling distribution to be regulated. This model was intended to encourage efficient use of generating and transmission capacity, and to pass the benefits to consumers.

One worry is that generators will use the captive market of their supplier to raise prices. Second, integration could undermine competition in the pool, as generators would have guaranteed market for more of their output, and would have less surplus to sell in the pool. Third, they might inhibit rival suppliers by charging too much for access to distribution, or by declining to hedge supply contracts, leaving suppliers vulnerable to swings in demand.

Contentious issue

There are counter arguments, voiced loudly by the generators and others opposed to an M&R referral. They assert that distribution can be ring-fenced adequately for the regulator's needs. This is unconvincing, as evidence of other regulated utilities shows.

terms of access to a monopoly network remain the single most contentious issue. Determining the true costs of the monopoly insurance remains problematic; companies have every incentive to allocate costs to the regulated part, where they can be passed on to customers, rather than to the business which faces competition.

Premature argument

A second counter argument is that competition in supply can be a substitute for any loss of competition in the wholesale market. However, at best, that argument is premature. Competition in supply will not exist at all for several years, and may then take years to develop, as a House of Commons select committee has warned.

Moreover, there are questions about whether competition in supply could ever, even in theory, be a substitute for competition in the pool. The pricing of electricity is enormously complex, given that it cannot be stored and that demand fluctuates greatly during the day and between seasons. The pool allows the price to change frequently to reflect those factors, and encourages efficient use of generating capacity. Given the relatively crude technology of delivering electricity to customers and informing them about prices, it is hard to see how customers could be as flexible in their purchasing decisions as this position requires.

A third counter argument is by far the worst: that it would open the way for a foreign takeover of Midlands or Southern while the MMC was deliberating on the original bids. If ministers find that attractive, they are putting political expediency above the long-term interests of consumers.

Despite months of debate, these concerns remain unanswered. To ignore them would be negligent; to put them aside for fear of political controversy would be reprehensible. Moreover, if such a strong case for referral to the UK's competition authorities is ignored, it is hard to see what event could warrant that move. It would be hard to believe that the government had any serious intention of fostering the vigorous competition policy which the public and businesses require.

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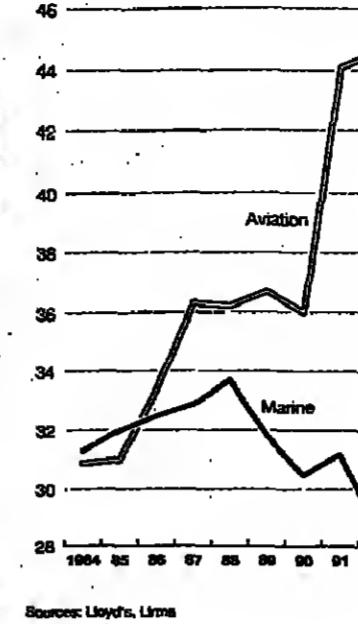


London insurance market: facing a global challenge

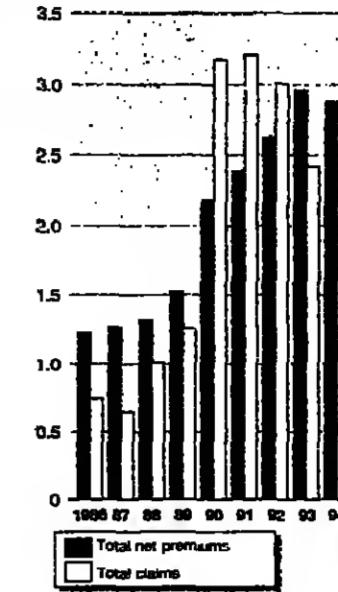
Lloyd's of London (£bn)
As at 31 Dec 1994



London's share of the world market-premiums (%)



London Insurance and Reinsurance Market Association (£bn)



Insurers in a risky position

The City of London's dominance of the world insurance market is under threat from centres in other countries and from electronic networks, says Ralph Atkins

Lloyd's of London was back in the headlines last week, with the abrupt resignation of Mr Peter Middleton, its chief executive. Not for the first time, the longer-term issues that confront Lloyd's and the rest of the London insurance market were obscured by speculation about personality clashes and the continuing anomalies of the Names, the 300-year-old institution's investors.

The London market's position as the dominant world insurance centre is under threat with aggressive competition from overseas eroding earnings and business volumes. At the same time, electronic networks threaten to erode the advantages of a presence in London by making it easier for policies to be sold around the world via computer screens.

"London always used to feel it had a divine right to business. It doesn't," says Mr Tony Funnell, chief executive of the Institute of London Underwriters. "The global markets are just as easily available at the end of a fax machine or whatever communications are used."

For more than three centuries, the London insurance market has sheltered commercial policyholders around the world from disasters, crime and other perils. The close proximity of several thousand underwriters and brokers in the City has made the London market an important part of the UK financial services industry.

At its centre is Lloyd's, where 170 insurance syndicates offer policies covering risks from pianists' fingers to oil rigs. In addition, more than 100 insurance companies also operate in the market, many of them in the form of international insurers.

Another drawback of a subscription market is its heavy reliance on brokers to supply business. Consolidation in the world insurance broking industry is creating larger, geographically spread businesses that may be less likely to turn automatically to London.

The impact of London's structural weaknesses is hard to gauge. Premium volumes held steady at about £12bn in 1992 and 1993, the latest years for which comprehensive data are available. But other evidence points to a subsequent decline; the level of business at Lloyd's, for instance, has fallen this year to its lowest since 1990.

In theory, "electronic placing support" would replace the traditional face-to-face dealings between brokers and underwriters which have been slower to come in for commercial insurance, which involves dealing with complex contracts accompanied by piles of documentation.

If the new network is successful, the traditional London broker, tool-slogging the City with bulging leather files, could be replaced by electronic messages and data flying at the speed of light to Munich, Paris, the US – or fast-growing insurance companies in the tax haven of Bermuda.

Moreover, electronic networks may lead insurers to question whether they need to be physically located in London. European Union laws introduced last year allow insurers in one member state to carry out business in another on the basis of regulation in their home country.

The most important consequence will be a steep fall in costs as labour-intensive tasks involved in handling large volumes of information are streamlined. A further reduction in the estimated 60,000 people employed by the London insurance market is inevitable.

But many insurers have pulled out. About 40 per cent of participants in the non-Lloyd's part of the market have withdrawn over the past decade. Commercial Union, the largest UK-based composite insurer, said this summer it was all but pulling out of the London non-marine reinsurance market because its small operation was unprofitable.

Whether others follow will depend heavily on London's attempts to use technology to cut

The main London insurance market bodies

Lloyd's of London – not an insurance company but a market in which syndicates underwrite a range of risks from private motor cars to oil rigs. Capital is supplied by individuals known as Names, and increasingly by corporate investors trading with limited liability.

The Institute of London Underwriters – a trade association for companies writing marine, aviation and transport business. Dating from the 1880s, it produces standard policy clauses for use by marine underwriters in London in drawing up policies. Many members operate from the ILU building in the City.

The London Insurance and Reinsurance Market Association (Lirma) – represents reinsurance and non-marine insurance companies. Many of its members also belong to the ILU and the two organisations share policy processing and claims facilities.

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Islamic groups claim responsibility for suicide attack in Pakistan

14 die in Egyptian embassy bombing

By Farhan Bokhari in Islamabad and James Whittington in Cairo

A suicide car bomber blasted his way into the Egyptian embassy building in the Pakistani capital Islamabad yesterday, killing at least 14 people and injuring another 60. The intensity of the mid-morning explosion shook large parts of the city and caused widespread damage.

Egypt's largest Moslem militant group, Gama'a al Islamiya (Islamic Group), swiftly claimed responsibility for the attack, although a counter-claim later came from its rival Jihad. Both groups have been waging a terrorist war against the Egyptian government since 1992.

Islamabad police officials said the blast was caused by a suicide bomber in a small van packed with explosives. Eye witnesses said an explosive device was thrown to blow open the metal doors of the embassy compound and the van continued towards the front of the building where the main bomb was detonated.

In a scene reminiscent of the



Pakistani rescuers carry a body from the bombed Egyptian embassy in Islamabad. The intensity of the explosion shook large parts of the city and caused widespread damage.

Photograph: Reuter

Islamic bombing of the US embassy in Beirut in 1983, the explosion tore a crater about 10m wide inside the compound and ripped the facade away from the two-storey building. Army investigators were still collecting evidence on the site last night.

Five Egyptians, including two diplomats, seven Pakistanis, an Afghan and the suicide driver of unknown nationality were con-

firmed to have died in the blast. Mrs Benazir Bhutto, Pakistan's prime minister, condemned the attack and said her government would do all it could to bring those responsible to justice.

The blast is a setback for her attempts to project Pakistan as a moderate Islamic country after criticisms that it was harbouring Moslem militants who fought

against the Soviet-backed govern-

ment in Afghanistan. Egypt's

President Hosni Mubarak described the bombing as "an evil crime" and offered full co-operation in the investigation.

The blast comes less than one week after a car bomb exploded outside a military installation in Saudi Arabia's capital Riyadh.

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President Bill Clinton.

However, the atmosphere has been overshadowed by mounting opposition in the US Congress to the dispatch of US troops to Bosnia, described by Mr Clinton as indispensable for the enforcement of a settlement.

The Bosnian government, apparently sensing that the dis-

patch of troops is now less likely,

has redoubled its pressure on the US government for the supply of arms and military expertise as soon as the talks are completed.

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Bosnia peace talks teeter on brink

By Bruce Clark in Dayton, Ohio

Talks on ending 43 months of war in Bosnia were teetering between success and failure last night as the US hosts announced that negotiations would end today, with or without an accord.

Mr Franjo Tudjman, Croatian president, said he was flying to Dayton, Ohio - where talks have been in progress since November 1 between the governments of Serbia, Bosnia and Croatia - in the expectation of signing a peace deal today, but US officials insisted that no accord had been struck as of late yesterday.

Mr Nicholas Burns, US state department spokesman, said a public event would be staged in Dayton today but this might be

the signing of a peace accord or the announcement of failure.

US officials said Croatia seemed broadly satisfied by the deal in prospect, which would divide Bosnia between a Serb zone and a Croat-Moslem federation, but important differences remained between Serbia and Bosnia. These were understood to concern both the constitutional arrangements of a loosely structured Bosnian state, and the precise territorial division between the two parts of Bosnia.

Serbia has been pressing for the corridor between its own territory and Serb-held northern Bosnia to be as wide as possible, while the Bosnian government wants to consolidate its control of and access to the Moslem

enclave of Gorazde in the east.

The Bosnian government is also nervous of any constitutional arrangements that would divide it easy for the Serb zone to secede and join Serbia proper.

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The Bosnian government, apparently sensing that the dis-

patch of troops is now less likely,

has redoubled its pressure on the US government for the supply of arms and military expertise as soon as the talks are completed.

Mr Robert Dole, leader of the

Republican majority in the US

Senate, reaffirmed over the weekend that Mr Clinton had yet to

convince Congress that the deployment of US ground troops in Bosnia was necessary.

The House of Representatives voted on Friday to stop the use of government funds for a Bosnian mission unless Congress approves.

Mr Clinton has said he reserves

the right to send troops to Bosnia under his own initiative and has

promised to consult Congress.

Italy sets low price for Eni

Continued from Page 1

Italian privatisations due in the next 12 to 18 months. The programme includes the flotation of Eni, the electricity company, the sale of further shares in Stet, the telecommunications holding company, and possibly a second tranche of Eni.

Analysts were already suggesting at the weekend that the government's generosity could be rewarded by a strong rise in the Eni share price once trading begins on November 28. That would increase the attraction of future privatisations for retail investors. These seem to have

been less enthusiastic about the Eni sale than about previous sell-offs, in spite of the treasury's offer to reimburse shareholders for a maximum 10 per cent decline in Eni's share price during the first year of trading.

Between 40m and 1bn Eni shares could have been set aside for small shareholders. The government said 330m shares had been reserved through a network of banks in the two weeks before the sale. That figure could rise to 450m or more once the offer opens tomorrow, advisers said.

IMI and Credit Suisse First Boston are acting as global co-ordinators of the Eni offer. Licensed investment compa-

nies will be encouraged to join the fund and to contribute its initial assets. But the fund will also receive 2 per cent of all revenues raised from privatising state-owned companies.

The decree also calls for stricter licensing of existing investment funds and provides greater powers to investigate and prosecute owners of fraudulent companies. "Firms which do not want to be reorganised will be disbanded, their property will be sold and money from the sale will be transferred to the compensation fund," Mr Dmitry Vasilev, executive head of the Federal Securities Commission, said.

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Licensed investment compa-

NORWAY

The minority may be right after all

Outside the European Union, Norway is prospering. But its non-oil economy is a worry, write Hugh Carnegy and Karen Fossli

The minority is always right, wrote Henrik Ibsen, Norway's most famous author, in his play *An Enemy of the People*.

A year after a clear majority of the country ignored warnings of political and economic isolation issued by much of the political and business establishment, and voted against joining the European Union, most Norwegians would surely beg to differ.

In the 12 months since the referendum, Norway appears to have gone from strength to strength.

The economy, carried forward as it has been for two decades by the rich flow of North Sea oil and gas, has rarely been in better shape, growing by almost 4.5 per cent this year, with growth of more than 4 per cent expected again in 1996. Predictions that the country would pay a price in higher interest rates for opting out of the EU have so far proved overblown. Unemployment, at 5 per cent of the workforce and falling, is among the lowest levels in western Europe.

Politically, the country has enjoyed remarkable stability in the aftermath of the hard-fought referendum campaign. Mrs Gro Harlem Brundtland, leader of the minority Labour government, emerged all but unchallenged as prime minister despite having invested much of her prestige and all of

the force of her office in the vain effort to secure a Yes vote.

A year on, the coalition of rural interests, nationalists, leftists and environmentalists which combined to win the referendum has disbanded, leaving the Labour government deeply entrenched against a deeply split opposition. There has been no repeat of events in 1972, when an earlier failed attempt to take Norway into the then EEC led to the collapse of the Labour government of the day.

Nor, yet, have the effects of saying No a second time to the European club been much felt on the foreign policy front. Paradoxically perhaps, Norwegians have decided in approval as Mrs Brundtland has deftly shifted the country to a fallback position of pursuing as close a relationship with the EU as possible short of full membership, a policy that the EU in turn has largely been happy to reciprocate.

But is it still possible that Ibsen's words will turn out to be true about the EU decision? For a good number of years to come, the North Sea petroleum bounty will continue to buoy the economy and underpin Norway's position as one of the world's most prosperous nations. This year, the country will be the world's largest non-oil exporter after Saudi Arabia.

Yet those who argued that joining the EU was an important step towards warding off the onset of longer-term shadows insist that the sunny climate of the last year has not changed their judgment.

This case is probably hardest to make about the economy, at least for the time being. Despite rejecting full EU membership, Norway remains in all but a few sectors such as agriculture an integral part of the

EU's single market through its participation in the European Economic Area. Although the advent to the EU of Austria, Finland and Sweden mean the only remaining non-EU members of the EEA are Norway, Iceland and tiny Liechtenstein, there is no sign of the arrangement being unwound.

Thanks to petroleum revenues, the government finances are in better shape than those of most EU members. Next year, the budget will move into surplus and the government will become a net lender. Norway already meets all the criteria - budget balance, modest debt levels, currency stability, low interest rates and low inflation - set for the final phase for European economic and monetary union.

Indeed, unless there is a stamp in oil prices, Norway will use its projected Nkr10.65 billion budget surplus next year to invest in foreign assets in the first of what it intends will be several years of saving against the future decline in oil and gas returns.

However, the pro-EU argument does apply in one important respect to the economy - because the oil bonanza will not last for ever. Government projections predict that revenues will begin to decline sharply in about five years' time - at just the moment when Norway's ageing population will mean a dramatic increase in the state's heavy pension obligations.

The worry is that this conjunction will expose the relative weakness of the oil-on economy. (Excluding petroleum revenues, the budget remains heavily in deficit as a proportion of non-oil GDP.) With the country outside the EU, investors may begin to adopt a wary attitude to Norway at the end of the petroleum era looms into view, making it more difficult to secure the conditions for post-petroleum prosperity.

The clearest arguments for Norway to enter the EU were political and strategic. The pro-EU camp remains deeply concerned by the absence of the country from the EU table at a time when the Union is the most important forum in

deciding future policy on the continent in all areas from economic to defence and security matters.

Again, events this year have to a considerable degree worked in Norway's favour. The EU has responded with some readiness to Oslo's "shadow" membership by which it seeks to stay as closely informed as possible on EU affairs and to make its voice heard as clearly as possible.

"In general, Norway has received from the EU and EU member countries fair treatment - a willingness to listen and a willingness to find solutions," says Mr Jonas Gahr Støre, director of international affairs at the prime ministry.

"We have absolutely nothing to complain about the way we have been treated since the referendum."

A striking example of this has been the expected accession of Norway - and Iceland - to the Schengen accord on open borders between a core of EU members. Championed by Denmark, Finland and Sweden, which have been in a Nordic passport union for decades, the entry of Norway would lead to the remarkable position where an external EU border was administered by a non-EU member.

In another key area - security and defence - developments have turned somewhat to Oslo's advantage. As a founder member of Nato,

Norway was worried that its exclusion from the EU, and therefore from full membership of the Western European Union, would set it at one remove in the evolution of post-cold war security structures in Europe.

But the initiative - in effect, to develop the WEU into a European defence arm - has faltered. Meanwhile, events in former Yugoslavia have shifted the emphasis back to Nato, and the leading role of the US in European security, to the quiet satisfaction of many Norwegian officials.

However, those officials are under no illusion about the vulnerability of Norway to future developments. At the moment, the close relationship within the structures of Nordic co-operation with Denmark, Finland and Sweden, give Norway an invaluable channel to monitor and try to influence EU policy. But the three Nordic EU members are increasingly likely to find defending Norway's interests a distraction as their own relationships with the EU deepen.

Above all, the threat of isolation which voters rejected last year is likely to become real if the EU goes ahead with its plans to expand at the turn of the century to as many as 25 countries, including the nations of central and eastern Europe. In that case, making Norway's voice heard within the main forum of European policymaking would become

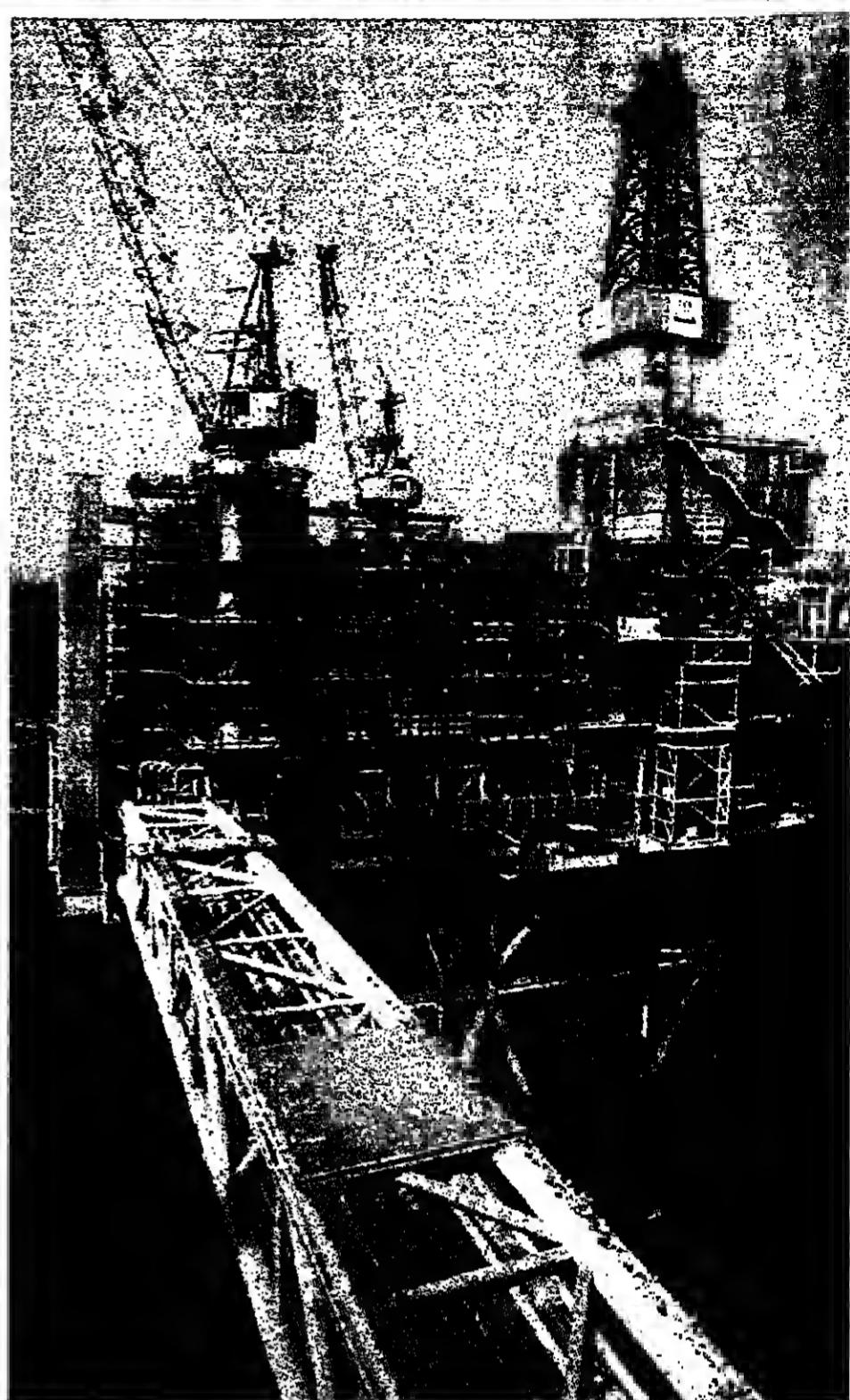
much more difficult than it is today in a EU of 15.

There are voices to be heard in Oslo arguing that EU expansion would compel Norway's leaders once again to attempt

to persuade the country to join the Union.

But in today's atmosphere of economic well-being and national self-confidence, those voices are confined mostly to

the halls of academia and private political discussion. No politician has yet dared to suggest publicly, in line with Ibsen's famous phrase, that the minority last year was right.



Getting Troll oil ashore had its ups and downs.

Thanks to advanced technology, these resources are now flowing directly to land.

It was impossible! Many people claimed that Statoil would never be able to lay an oil pipeline from Norway's Troll field in the North Sea to Mongstad on the west Norwegian coast. At least not within the time available. And certainly not to budget. The challenges were far too great.

It was deep. Norway's oil industry has never worked in such depths before. The pipeline route starts in 350 metres of water, descends to 450 metres, rises to 240 metres at the entrance to the Fens Fjord and then drops again to its deepest point at 540 metres below sea level.

It was a rollercoaster. The pipeline had to be laid through areas with very uneven seabed terrain - not only in the deep Norwegian Trench, but also all the way up the Fens Fjord.

It was narrow. Extremely accurate seabed mapping was needed to find the optimum pipeline route. We developed new echo-sounding solutions that allowed us to make detailed subsea charts at scales down to 1:200. This technology will be useful in future - not only underwater, but also for normal land mapping.

It was steep - so we cut through. The seabed at Mongstad rises so sharply that the pipeline could not be brought ashore directly. We had to drill our way from the terminal down to the seabed.

This 760-metre borehole emerges at a water depth of 315 metres - a world record.

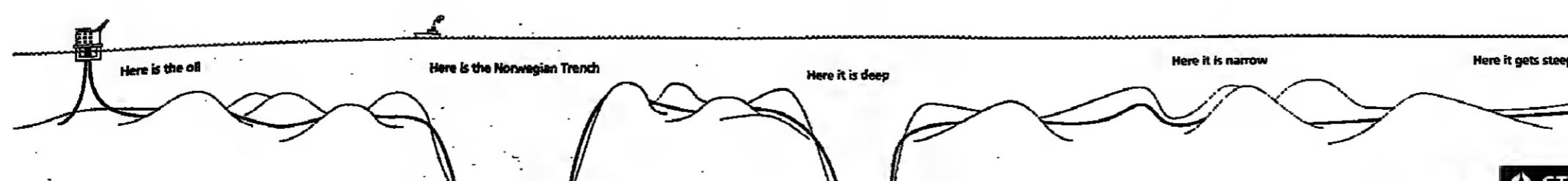
Through it, we could lay the Troll Oil Pipeline to its destination at our Mongstad crude oil terminal.

Oil production from the Troll field was due to begin in January 1996. But effective development work by operator Norsk Hydro and successful pipelaying meant that oil could flow ashore three months ahead of schedule.

Norway's most difficult pipelaying job has been completed - to budget and on schedule.



Troll Oil Pipeline - Norway's most advanced pipelaying technology



STATOIL

II NORWAY

■ The economy: by Hugh Carnegy and Karen Fossli

The strength that may not last

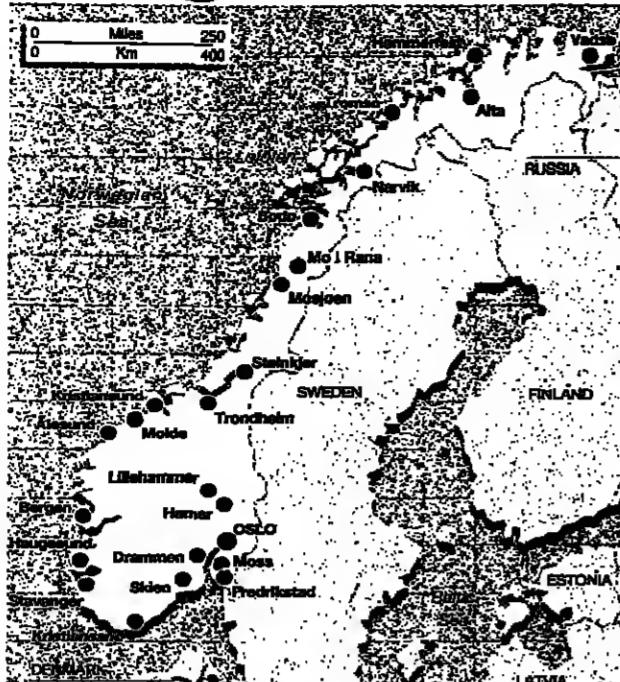
The country is in an enviable position, but it could suffer when the oil runs out

On a recent visit to Rome, a senior Norwegian government official was asked by his Italian counterpart how large were Norway's budget deficit and state debt. His reply - that next year the country's finances would move into surplus and that the government was a net lender - was greeted with incredulity.

"I don't think you understand my question," the Italian said. But the question had indeed been understood and the answer was correct.

Unlike so many countries in Europe, oil-booster Norway is enjoying not only a strong economic performance, but also has its fiscal affairs well in order. It would already qualify comfortably for European economic and monetary union had the Norwegians not voted against joining the European Union in a referendum a year ago.

A rundown of key indicators illustrates the enviable position the country finds itself in: ■ GDP grew by a powerful 5.7 per cent last year, including oil and offshore sector; mainland GDP was also very strong at 4.8 per cent. Growth is slowing somewhat, but GDP growth of more than 4 per cent is expected this year and next, with mainland growth expec-



Tony Andrews

ted to reach 3.2 per cent this year and 2.5 per cent in 1996.

■ Inflation will rise this year to an estimated 2.5 per cent from a 1.4 per cent increase last year, but is expected to fall back to 2.4 per cent in 1996.

■ Unemployment declined to 5.5 per cent of the workforce in 1994 - low by west European standards - and is forecast to fall steadily to 4.7 per cent next year.

■ Interest rates, which many feared might rise significantly after the negative EU vote,

remain low, with long-term rates only about 1 per cent above benchmark German rates. The krona has been stable, appreciating against the Ecu this year.

The Labour government, however, recognises that there is little room for complacency. "Of course the Norwegian economy is going very well," says Ms Marianne Andreassen, junior finance minister. "But we can see problems both in the short run and in the long term."

The main potential problem in the short run lies in the very cyclical nature of the economy. It is in the midst of an upswing now, but the government fears overheating. At the same time, Norway is - inevitably - acutely vulnerable in a fall in the oil price.

But it is on the longer term that most concerns are focused. Although Norway is blessed with the bounty of oil and gas revenues from the North Sea, petroleum returns are reaching a peak and are estimated to start declining early in the new century. At the same time, there will be a rapidly growing number of old people as the state's pension commitments start to rise sharply.

A stark graph in the 1996 budget proposals shows the central government's net cash flow from petroleum operations falling steeply from some 8 per cent of GDP in the

early years of the next decade, while pension dues rise equally steeply from the same level. By the year 2010 - if projections are correct - the gap between the two could be close to 5 per cent of GDP.

This has underscored worries about an uncomfortable underlying feature of the Norwegian economy. The non-oil economy is relatively weak, with a low manufacturing base and a big state welfare system. If the Italian official had asked how big was the government budget deficit excluding oil, the answer would have been very different: in 1995 the figure is set to be close to 8 per cent of mainland GDP.

So the government's strategy is to use the present high point in oil returns and in the non-oil economic cycle in prepare for the leaner times it expects in the future. "The petroleum revenues are very special," says Ms Andreassen. "As you

KEY FACTS

Area	323,877 sq km
Population	4.3 million (1994 estimate)
Head of state	King Harald
Currency	Norwegian Krone (NOK)
Average exchange rates	
	1994 \$1=NOK7.05 ; 9/11/95 \$1=NOK6.33
	1994 £1=NOK10.78 ; 9/11/95 £1=NOK9.86

ECONOMY

	1994	1995*
Total GDP (\$bn)	123.5	n.a.
Real GDP growth (%)	5.7	3.7
GDP per capita (\$)	28,709	n.a.
Components of GDP (%)		
Private consumption	52.0	
Total investment	18.7	
Government consumption	21.9	n.a.
Exports	43.4	
Imports	-37.0	
Consumer prices (% pa)	1.4	2.5
Manufacturing prod. (% pa)	6.8	5.8
Oil & gas output (% pa)	12.4	7.8
Unemployment (% of lab force)	5.4	5.0
Reserves minus gold (\$bn)	18.0	21.6
3 month interbank rate (% avg)	5.98	5.45
10 year govt bond yield (% avg)	7.47	6.75
FT-A index (% change over year)	+6.7	-2.1
Current account balance (\$bn)	3.6	5.1
Exports (\$bn)	34.9	
Imports (\$bn)	26.6	n.a.
Trade balance (\$bn)	8.3	

Main trading partners (1994, % by value)	Exports	Imports
Nordic countries	17.1	25.6
Germany	12.5	14.0
UK	21.1	10.5
EC	64.7	49.2

* = EU estimates for 1995 except reserves (August), interest rates (9/11/95) and stock market index (% change from 1/1/95 to 9/11/95).

Sources: IMF, Datastream, Economist Intelligence Unit.

reap them, you are depleting your wealth base. It is critical how we use this money." To end this the government established in 1990 the Petroleum Fund as a vehicle to invest surplus revenues

against future needs, rather than spending funds on current spending or transfers. To date, however, there has been no surplus to invest. It is only in 1996 that the government will have a NOK10.6bn budget

surplus available to invest - assuming the oil price stays at or above the NOK105 per barrel level forecast and parliament does not vote to spend more.

The Petroleum Fund money is to be invested overseas, initially in non-risk, liquid assets such as government bonds.

Meanwhile at home, the government is committed to continued budgetary restraint and low inflation policies to improve the competitiveness of the mainland economy. It is worried that, though relative labour costs fell in the early 1990s, the trend has reversed recently and the country remains at levels above the average of its competitors.

The business community is critical, however, and would like to see the government go further with fiscal rigour and in structural reforms. Mr Tor Steig, director for economic policy at the Confederation of Norwegian Business and Industry, says the Petroleum Fund should be structured to set aside much greater amounts before government spending programmes have been decided.

The confederation also calls for reforms to make the labour market system more flexible, to cut Norway's extremely generous sick pay benefits and to exert stronger controls on local government spending. But Mr Steig says attempts to introduce more market-oriented policies tend quickly to run into opposition in equality-minded Norway.

"It is impossible to discuss incentive-oriented schemes. They are seen as unfair and not egalitarian. And it is very difficult to do something about these issues when the country is so rich," he says.

■ Banking: by Hugh Carnegy

State is accused of political football

A heated debate has broken out over Labour's plans to keep control of two big banks

When it comes to the everyday business of performance, Norway's banks have all but completed the long haul back from the oil bust after the loan market turbulence that laid them out of the turn of the decade, but another form of turbulence - a direct consequence of the earlier crisis - is rattling the country's financial sector.

The losses suffered by the sector in the early 1990s were so deep that the principal commercial banks were taken over by the state to prevent a collapse in the system. Now the banks - supported by most of the business and industrial community - would like to return to full private ownership.

But the Labour government has made a commitment to retain effective long-term control over the two biggest banks, Den norske Bank and Christiania Bank, prompting a heated debate that has spilled over into party politics and created considerable uncertainty over the outcome of a still-incomplete trend of consolidation within the industry.

On the performance front, the picture at present is of stability - though not without some worries. Last year, the commercial banks together more than doubled net profits, from NOK2.2bn in 1993 to NOK4.8bn, pushing up profitability from 19 per cent of average equity to 24 per cent. The biggest feature in this outcome was a dramatic turn in loan losses, from NOK8bn to NOK20bn - the lowest sign yet that the banks had overcome the previous crisis.

This year, the upward trend has continued. In the first nine months, Christiania Bank reported a jump in operating profits from NOK1.13bn to

NOK2.32bn, in large part because it was able to write back significant sums previously written off against loan losses. Write-backs were also a key factor in DNB's nine-month profit of NOK2.1bn, a 7 per cent rise on the same period last year.

However, DNB suffered a fall in net interest income in the first nine months, while Christiania managed only a modest rise. The development signals the narrowing spreads that the banks can achieve between deposit and lending interest rates in an increasingly competitive market. But it also appears to signal a peaking of the cycle in Norway's traditionally

The prospect of leaner times has increased the pressure for consolidation

highly-cyclical economy.

The prospect of leaner times in core operations (and the banks are also warning that the recent boost from write-backs will not last) has increased the sector's eagerness to push ahead with consolidation to ensure efficiencies are maximised. There are 22 commercial banks in Norway and more than 100 savings banks.

Competition across the financial services spectrum is on the increase - the most notable example for the banks being the growth in Norway of Sweden's Svenska Handelsbanken, which now has 12 branches and a near 3 per cent market share.

"We still have too many banks and the larger banks are still smaller than they need to be to compete in the international environment. This is something that troubles us a lot," says Mr Steinar Juel, director of business development at Christiania (the bank

is known in Norway as Kreditkassen).

This year has already seen some significant moves. DNB has taken a winning position in its battle with the Dutch insurer Aegon for control of Vital Forsikring, the country's second largest insurance company. Christiania is poised to complete a takeover of Norgeskredit, giving it a leading 38 per cent share of the mortgage institutions' market; in July, Nordlanskanken, a leading regional commercial bank in the north, beat off a takeover bid by Sparebanken Nord-Norge, one of the country's biggest savings banks.

But the process has become ensnared in politics. This stems from the Labour government's decision - against earlier indications - that it will retain effective control of DNB (currently 72 per cent state-owned) and Christiania (69 per cent) in state hands indefinitely. This year, the government completed the re-privatisation of Fokus Bank, which is one of the larger rivals of the big two banks and had to be rescued during the credit loss crisis.

The rules are to be different for the big two, however. The government has said it is prepared to reduce its stake to 50 per cent in each by 1997, and thereafter to one-third. But it plans to go no further. "We need to have stable ownership of the banks," says Ms Marianne Andreassen, state secretary at the finance ministry.

"Keeping a one-third state share is not the only way, but it is the best way. There is also a fear that these two banks will come under foreign ownership - that is part of the issue."

This position is rejected by the Bankers' Association. "We think the government should sell all its shares as soon as orderly market conditions make it possible," says Mr Trond Reitersen, chief executive of the association. "We think that is possible while keeping the controlling share

holdings in Norwegian hands. But we should also remember that the whole economy of this country has been built on foreign capital."

"We are very concerned not to give the impression that we want to exclude foreign capital. On the contrary, we should welcome it."

The dispute has already caused problems. Earlier this year, a bitter row broke out between the banks and the government when the state tried to force the banks to pay out 50 per cent of profits to

dividends. The government eventually backed off, but the dispute left a question-mark over the issue of direct interference in the banks.

The state is also left in the awkward - some critics say untenable - position of being both owner and regulator of the financial institutions. This has been shown up to an acute degree in the case of DNB's bid battle with Aegon for Vital, as the government requires official approval.

At the same time, if and when DNB and Christiania

move to acquire another institution, the state automatically extends its ownership role in the sector. This has attracted strong criticism from the Conservative party and other opposition groups. As the Labour government is in a minority in parliament, uncertainty over these issues is considerable.

"In this situation, banking becomes a political football and it is an environment in which it is very difficult to operate," says Mr Joel of Christiania. "We don't want that for the next five or six years."



Tony Andrews



Tony Andrews

This reorganisation was, however, only the first step. In October came the second when Aker moved in to merge the cement and building materials operations with Euroc, the Swedish cement group. In a complex deal, Aker is to become a one-third owner in the yet-to-be-named new company, an equal partner in ownership with Stenska, the Swedish construction group.

The Euroc deal completed Aker's long-term plan to forge its operations from the effects of a spectacular accident in 1991 when a large concrete oil production platform, the Sleipner A, which it had built for Statoil, the Norwegian state oil company, sank in a fjord near Stavanger as it was about to be towed out into service in the North Sea.

The shake-up began in May when Aker took action to forge its operations and one-third interest in the new cement company. Aker is also left holding a 27 per cent share in the Finnish group Partek, which is worth at present for less than the NOK1.1bn it paid for the stock last year as part of its manoeuvring in the cement business.

The new shape apparently left many investors somewhat nonplussed. At the beginning of this month, Aker's share long worried investors,

price remained around NOK40, slightly below its level before the first reorganisation in May.

Mr Tom Rund, chief executive, admits that Partek is "not of the same strategic value" in Aker as the other components, signalling Aker may sell its stake once the Partek share price is stronger.

But he insists the underlying structure and strategy of Aker is clear. "Aker is an industrial company with a perspective much more than that of an investment company," he says. "We have undergone the type of restructuring that suits the two kinds of business we are involved in owning and operating."

Aker is certainly embarking on its re-ordered future from a platform of improved performance. In the first eight months of this year, pre-tax profits jumped well ahead of analysts' expectations in NOK643m from NOK358m in the same period last year, despite a NOK1.1bn fall in sales to NOK9.7bn.

The oil and gas technology division returned a weaker performance, with operating profits falling to NOK32m from NOK15.5m. Profitability in

both Euroc and Aker's cement activities has waxed strongly this year.

The intention is to expand quickly beyond the new company's core markets in Sweden and Norway (where it will have a more than 90 per cent market share) in Europe and beyond.

With plenty of cash in the bank, Aker is prepared to play its part in backing the expansion of the cement company - while maintaining its one-third ownership share. Mr Rund clearly foresees calls on the owners for funds as he says the company is likely to go for rapid growth by acquisition.

Hugh Carnegy

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■ Business ownership: by Hilary Barnes

Risk of 'mixed-up economy'

The private sector is worried both by state ownership and by foreign control

How much of Norway's business sector should be owned by foreigners or by the state has become an agonising topic for debate among private sector companies in the light of three recent and significant merger moves.

The foreign ownership issue has been highlighted by a Dutch group's bid to take over Vital, one of Norway's largest insurance companies; the merger arrangements for Hafslund Nycomed, the pharmaceuticals group, with Ivar, the US; and the recent Nordic cement industry tie-up between Norway's Aker and Sweden's Euroc.

After Hafslund Nycomed's merger with Ivar, only 25 per cent of the capital in the pharmaceuticals group will be Norwegian. In the Aker-Euroc deal, the headquarters of the successor corporation will be in Sweden.

According to Mr Karl Glad, managing director of the Federation of Norwegian Industries, capitalism has become a competition for competence and know-how. Internationalisation of Norwegian industry is desirable, he says, but if it means that headquarters functions move abroad, there is a clear risk that competence will drain from Norway. The best defence, in Mr Glad's view, is for the government to ensure that the Norwegian climate for business, including the opportunities for tax-plagued households to build up private savings, is at least as attractive as that elsewhere.

The problem - if it is a problem - of state ownership has been brought to the fore by the Norwegian Bankers Association

tion, which recently calculated that the state owns at least half the country's business and industry, including 25 per cent of the stock issued by companies listed on the Oslo Stock Exchange.

Foreign ownership, according to the same study, comes to about 14.5 per cent of all business and industry, while the Oslo Stock Exchange's figure for share ownership shows that foreigners own about 30 per cent of the shares in companies listed. This compares with just over 20 per cent for foreign ownership in Swedish listed companies (in 1994) and under 10 per cent in Danish listed companies.

Mr Trond R. ReinerSEN, managing director of the Bankers Association, is a prominent

The state owns at least half the country's business

critic of the spread of state ownership. Norway, he says, is in danger from moving from a mixed economy, in which most businesses are owned and operated by private interests, into a mixed-up economy. The mix-up is between the state as owner, lawmaker and the authority which sees that the laws are kept. Competition is also affected by state ownership, he says.

"We are moving into unknown waters, of which no western country has any experience," he wrote in an article published earlier this year. The Labour government is aware of the potential problems of the large state ownership, but the present party-political make-up of the Storting is not one which favours large-scale privatisation. Mr Jens Stoltenberg, minister for energy and industry, has promised that

the whole issue will be discussed in the government's next long-term economic planning report, which is due in 1996.

Two factors have contributed strongly to the growth of state ownership of Norwegian industry - the onset of the oil era from 1970 onward and the banking crisis of the early 1990s. Through Statoil, the state-owned oil and gas company, the government has a stake valued by the Bankers Association at Nkr95bn in the offshore industry.

The state also has enormous

direct investments in the North Sea (known as State Direct Economic Engagements), worth about Nkr380bn.

In addition, it owns 51 per cent

of the second large Norwegian offshore company, Norsk Hydro. Statoil and the direct state engagements together (the Bankers Association counts Norsk Hydro as a private company for the purposes of its ownership study) account for more than half the value of the state's total business investments, which are put at Nkr752bn.

Other major areas of public ownership are hydro-electric power generation, about Nkr150bn, and Telenor, the state telecommunications monopoly, Nkr11bn. When Norwegian banking was hit by a dramatic crisis in 1992, the state took control of what were then the three largest commercial banks in preference to an arm's length rescue process.

The three were Den norske Bank, Christiania Bank and Fokus Bank. Fokus, the smallest of the three, is to be privatised, but the state intends to retain control of the other two. The state also owns several other banks, of which the largest traditionally have supplied cheap mortgage loans. These banks, with an equity valued at about Nkr10bn, account for just over 20 per

cent of total bank lending. Until the conclusion of the European Economic Area agreement with the European Union, Norway controlled foreign acquisitions through the so-called concession (or licensing) law. The old law, applying only to foreign acquisitions, has been replaced by a law which requires all companies, Norwegian and foreign, to seek approval of the government for mergers and acquisitions, and is thus non-discriminatory.

Politically, the issue is particularly sensitive in the finance industry, where one motive for continued state control of the two biggest commercial banks is to ensure that they stay Norwegian.

The government finds itself in a dilemma over the bid by Aegon for Vital earlier this year, which was met with a counter-bid by Den norske Bank. So far, it has stalled. At the time of writing, neither acquisition by Aegon nor DNB has been approved by the Ministry of Finance. In the meantime, a majority has emerged (though it has not yet been tested by a vote) in the Storting to reject both merger bids.

Two arguments are used: Vital should stay Norwegian, and concentration of ownership in the finance industry should be avoided. If the government ignores Storting opinion and approves both DNB and Aegon as potential owners of Vital, the Dutch company is expected to make a new offer to shareholders to wrest control from DNB. On the other hand, the Storting might then wrest control from the Labour government. If the Storting insists on rejecting Aegon's right to acquire Vital, Norway risks a head-on conflict with the European Union over the free movement of capital under the terms of the European Economic Area agreement.

■ Foreign relations: by Hugh Carnegy

Oslo's 'next best' strategy

The country's "four leg" platform amounts to shadow European Union membership

Since the referendum vote on November 28 1994, rejecting membership of the European Union, Oslo has had to construct what might be termed a "next best" strategy.

The vote was not followed by any radical departure in foreign policy; instead, Norway is attempting to stick as closely as possible to how things would have been had the country elected to join the EU. It amounts to a policy of shadow EU membership.

Mr Jonas Gahr Støre, director of international affairs at the prime minister's office, likens Norway's post-referendum foreign policy - appropriately enough - to an oil platform on four legs.

The legs are the country's membership of the European Economic Area (the agreement with Brussels originally intended as a holding arrangement for aspirant EU members, but which now gives Norway, Iceland and Liechtenstein almost full access to the EU's single market); its membership of Nato; co-operation with other Nordic countries; and the relationship with the EU.

The four "legs" are closely interconnected. EEA membership gives Norway an invaluable economic link to the EU.

Membership of Nato, of which Norway is a founder member, and associate membership of the Western European Union mean that Oslo remains intimately involved in the evolution of post-cold war defence and strategic policy in Europe.

The structure of Nordic co-operation, which includes EU members Denmark, Finland and Sweden, gives Norway a channel for information and influence on the EU.

The question is to what degree this "next best" strategy achieves its aim.

So far, Norwegian officials express satisfaction that the policy is working well, both at home and abroad. Opinion polls suggest broad backing



Soldiers on duty at the Akershus Fortress

from the electorate, while relations with the EU and individual EU countries appear to remain close.

"It is not easy getting meetings on the level we would look for, but so far we have got most of what we wanted," says Ms Siri Bjørke, assistant foreign minister with responsibility for European affairs.

Perhaps most striking to date is the likely accession of Norway - and Iceland - to the Schengen agreement under which a core of EU countries have reduced border controls between them to a minimum.

The other Schengen nations

appear to have accepted in principle that Norway and Iceland can join - so that an external border of EU Schengen members will be administered by a non-EU member.

In other respects, too, events have worked in Norway's favour.

A clause included in the EEA agreement providing for political dialogue between EEA members and the EU has for Norway assumed great importance as a means to sus-

tain formal access to political developments in the EU. Significantly, developments on the defence and security front have not undermined Norway's influence as Oslo feared. As a non-EU member, Norway cannot be a full member of the WEU. It had been anxious that this would leave it exposed if, as has been mooted, the WEU was to become the principal instrument of European defence and security, assuming more of the role now played by Nato.

But that move appears to have been sidetracked. Instead, events in former Yugoslavia have shifted the emphasis back to Nato, with its strong transatlantic foundation, which Norway strongly wants to maintain and where it has the influence of a full member.

Nevertheless, Norway is under no illusions that its position outside the EU means it is harder to sustain its overall influence in European affairs than before.

"Government members are putting more efforts into keeping up their contacts," says Ms Bjørke. "They have travelled as much to Brussels and to EU member capitals this year as in the interim period before the referendum."

Mr Gahr Støre admits Norway is in a "somewhat vulnerable position". On vital issues, such as EU fisheries and energy policies, Oslo's limited influence as a non-EU member could at some stage in the future work against the country's best interests.

There is a question mark over the extent to which Denmark, Finland and Sweden will continue to have time to, in effect, represent Norway's interests in the EU. The others may become woven into a network that, bit by bit, brings them into a different culture. That is a fear," says Mr Gahr Støre.

Norway's position is also likely to become more isolated when - assuming Brussels sticks to its plans - the EU expands to include the nations of central and eastern Europe.

That development, due early in the new century, might prompt Norway's politicians once more to propose membership to their electorate.

■ Energy policy: by Karen Fossli

Welfare state opens the taps

Facing a conflict of interests, the country has put the environment in second place to oil

In pursuit of an aggressive energy policy, Norway, western Europe's largest crude oil producer, has abandoned a pledge to stabilise domestic carbon dioxide emissions at 1988 levels under the international Rio Convention on Climate Change.

Under this policy, the taps have been opened on domestic petroleum output, driving up oil production to record levels and contributing to more than doubling exports of natural gas by the turn of the century.

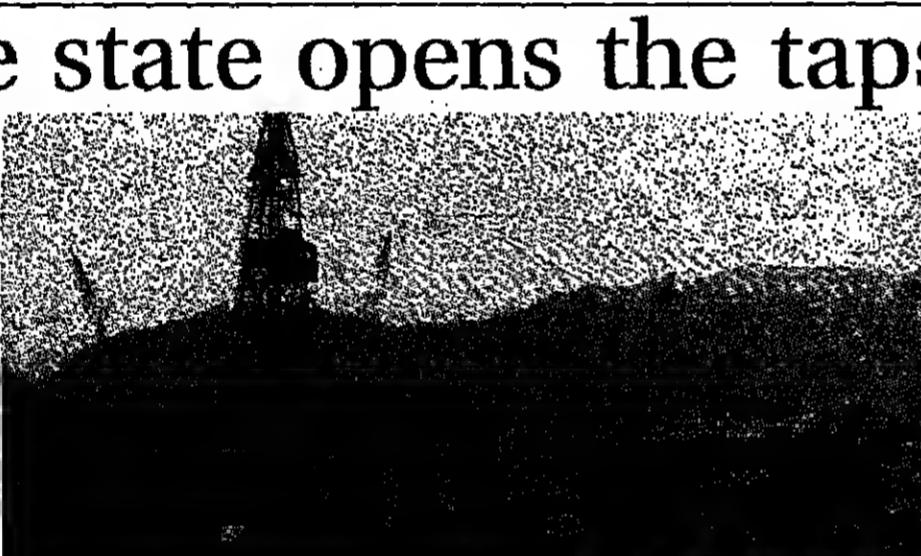
Norway has daily average oil production of more than 3m barrels and is expected to boost exports of natural gas to between 70-80bn cubic metres by the end of the decade from a current level of around 27bcm.

Edinburgh-based energy analyst Wood Mackenzie forecasts that this year Norway's oil output will rise 11 per cent - after having risen 13 per cent in 1994 - to average around 3.3m barrels a day.

Moreover, Norway is poised to become the world's second largest exporter of crude oil this year or next, behind Saudi Arabia and overtaking Iran.

Mrs Gro Harlem Brundtland, the prime minister, has sought to distance herself from the conflict of interests the energy versus environment dilemma poses to save face as head of the United Nations commission which produced one of the most influential documents this century on global environmental issues, earning her global recognition as a champion of green causes.

The unenviable task of



Oil platforms near Osen in western Norway

reconciling energy policy with environmental concerns has been taken on by Mr Jens Stoltenberg, Norway's industry and energy minister. Norway in general, and Mrs Brundtland specifically, have in recent years been criticised at home and abroad for putting energy before environment.

Mr Thorbjørn Børseth, environment minister, reluctantly concedes Norway will not achieve its Rio emissions goals.

But Mr Stoltenberg argues that by stepping up exports of natural gas, Norway will contribute to reducing western Europe's noxious emissions.

Mr Stoltenberg sharply criticises countries that subsidise national coal production and force electricity utilities and industry to buy local coal.

"Coal is more polluting in all respects compared to oil and especially compared to natural gas," he told delegates at a conference in August.

But Norway's energy versus environment arguments are designed to benefit a country which has become more hooked on petroleum than ever because of the revenue it generates to underpin a lavish welfare society.

Norway also has western Europe's most abundant supplies of uncommitted natural gas reserves and no domestic market in which to sell it. It has so far failed to convince its Nordic cousins of the benefits of importing Norwegian gas.

Paradoxically, soaring oil and gas output - during each

of the past 25 successive years since the discovery of petroleum on Norway's continental shelf - may be beneficial in helping European neighbours reduce carbon dioxide levels, but means Norway's own noxious emissions have risen because of the energy consumed to produce and transport the fuels.

Mr Stoltenberg justifies the energy argument by pointing out that the overall effect of Norwegian gas exports to the continent is positive as long as at least 5 per cent of these exports replaces coal. But many environment organisations consider this a dubious explanation for justifying Norway's aggressive energy policy.

Oil companies operating in Norway argue that tax on carbon dioxide emissions at oil and gas fields are undermining efforts to reduce costs and improve competitiveness.

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He believes further improvements to emissions from oil and gas production would be costly to achieve because the greatest potential for reductions has already been exploited.

But noxious emissions from Norwegian petroleum activity will continue to increase as petroleum production rises in the years ahead.



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44 of the listed companies, of which 11 are foreign, operate within shipping and offshore. The shipping list is the most liquid submarket on the Exchange.

The Exchange operates a growing futures and options market.

The Exchange's international information programme includes the annual seminar, Investing in Norway, to be held in London on Tuesday, 21 November. This year's speakers include: Sigríður Jónasson, Minister of Finance; Diderik Schmid, Chairman of the Confederation of Norwegian Business and Industries and Kjell Frøland, President of the Oslo Stock Exchange.

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■ Shipping: by Hilary Barnes

Storm over tax regime

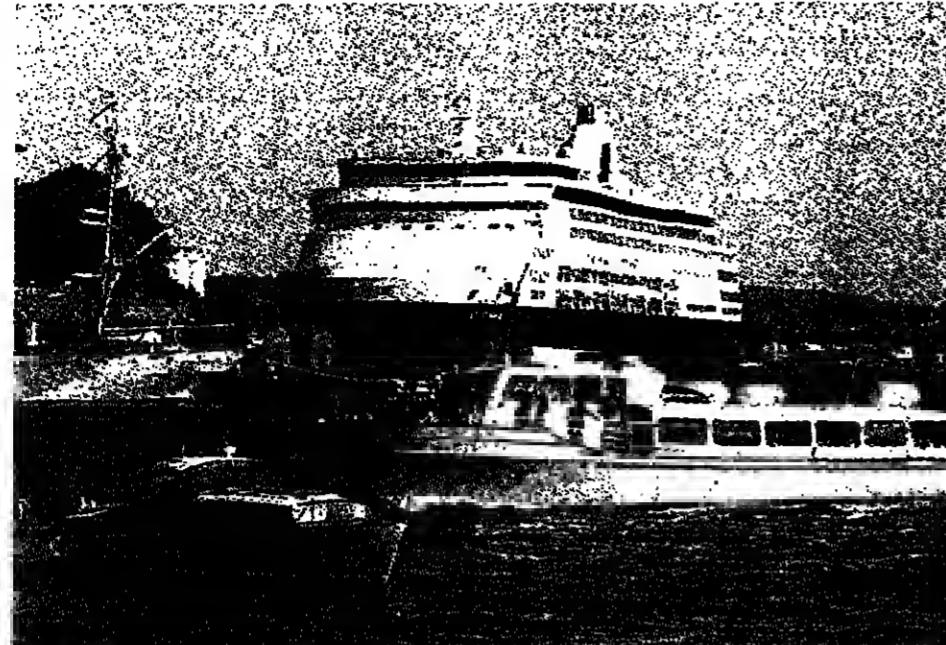
Afraid that owners may choose to go abroad, an industry united front is seeking relief

The Norwegian shipping industry is in good shape and there is reason to be confident about the future. The only question is whether that future will be in Norway or elsewhere.

Mr Rolf Saether, managing director of the Norwegian Shipowners' Association, is blunt in presenting the issue which the industry believes it is facing.

The answer, the industry hopes, will be given in a white paper on the maritime industry which the government is due to publish next month.

Mr Saether represents the owners, but he is able to speak with the assurance that his view is shared by the entire shipping industry. As the result of an unusual initiative, the owners, the trades unions, the shipbuilding industry, the suppliers of maritime equipment, representatives of the brokers, agencies, classification societies and the maritime financial service sector have come together to produce a



A great shipping nation - but could high taxation lead to a dispersal of its commercial fleet? Tony Annesley

report which makes joint recommendations to the government on the future of Norwegian shipping.

"For the first time ever, we were all in agreement," says Mr Saether.

The background for the emergence of the united shipping industrial front is twofold. Firstly, the industry learnt in 1987 that a concerted effort can sometimes persuade the government of the day to make changes to the regime under which it operates in order to ensure international competitiveness. This was the year in which the Norwegian International Ships Registry (NIS) was established. The NIS helped to provide a solution to the problem of the extremely high cost to Norwegian owners of Norwegian crews and officers by adjusting the tax rules.

Secondly, a tax reform implemented in 1991 is seen by the industry as presenting a new threat to Norwegian shipping. By acting together, the industry hopes, once again, to persuade the government to assist it to remain competitive.

Until 1991, shipping companies in effect paid very little tax. The new tax regime subjected them to the same, 28 per cent, rate of corporate profits

tax as other industries. More importantly, it removed the special regulations which in the past enabled shipping companies to reduce taxes paid to a minimum level.

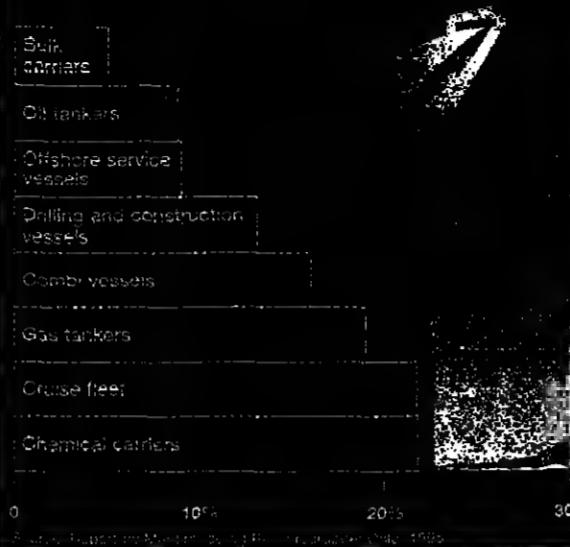
The government's argument for the reform was, to put it briefly, that a misapplication of capital occurs if it is invested in an industry which is unable to make a post-tax profit of the same order as other industries. As Mr Saether says, however, it is not a simple matter to impose a system of tax neutrality on shipping, which is a mobile industry operating in a global environment. If the companies find the Norwegian tax environment detrimental to their interests, they will move elsewhere.

A few companies have left Norway since 1991, but there has been no mass exodus. But, says Mr Saether, this is partly because the intervening years were not particularly good ones for shipping: profits, and hence tax liabilities, were modest. Many of them have also been able to reduce tax liabilities by carrying forward losses from earlier years. However, better times will give the companies a stronger incentive to reconsider their location.

In the mid-1970s, the industry's position was even stronger. Norwegian owners about 10 per cent of the world's merchant shipping, but the oil price shocks, combined with an unfavourable development in Norwegian domestic costs, caused a decline. The slide was brought to a halt when the NIS was established.

Meanwhile, the companies have diversified into sectors of shipping with a higher added value and requiring specialist technical and operational knowledge, such as chemical

Shares of world merchant fleet operated by Norwegian owners



ger. Norwegian owned about 10 per cent of the world's merchant shipping, but the oil price shocks, combined with an unfavourable development in Norwegian domestic costs, caused a decline. The slide was brought to a halt when the NIS was established.

Ironically, the chief beneficiary has been the ruling Labour party, the country's dominant political party, which threw the full authority of Mrs Gro Harlem Brundtland, the prime minister, and the rest of the party leadership behind the campaign for a Yes to the EU.

In similar circumstances in 1972, when Norwegians first rejected EU membership, the Labour party was plunged into crisis. Its ranks deeply split on the issue, the then Labour government resigned. This time, however, the picture was very different.

Despite being in a minority in parliament, Mrs Brundtland's government has stood on unchallenged. The party quickly closed ranks behind her - although almost half of Labour supporters voted No - and opinion polls have shown very strong support for the government's fall-back policy of pursuing as close relations with the EU as possible without being a member.

The key recommendations in the report would restore a tax regime which leaves them no worse off than companies in other countries with large shipping industry - an immediate 20 per cent depreciation write-off on the value of a ship as soon as an order contract is placed; a 20 per cent "environmental cost" depreciation write-off for purchasing new ships and, at lower rates, for ships under 10 years old; and freedom for owners to decide, within a span of four years, when the capital gain from the sale of ships should enter the accounts for tax purposes.

Pending the white paper, ministers have continued to say that the government cannot see that shipping alone should be made a special case for tax reasons, but it is a fair guess that the last word on this subject will not be heard for some months.

■ Politics: by Hugh Carnegie and Karen Fossi

Labour sails on unchallenged

Opposition splits have played into the hands of the government

Norway's political scene was fractured by the unsuccessful campaign to join the European Union. A year after the referendum delivered a clear rejection of membership, the traditional alignments have yet to reassess themselves.

Ironically, the chief beneficiary has been the ruling Labour party, the country's dominant political party, which threw the full authority of Mrs Gro Harlem Brundtland, the prime minister, and the rest of the party leadership behind the campaign for a Yes to the EU.

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The chief reason for Labour's success has been the real splits within the ranks of the opposition parties, which have led to the absence of any credible alternative government.

In the past, non-Labour governments were made up of coalitions led by the Conservative party, traditionally the second largest party, and including the Centre party - the party of the farming and rural communities - and the Christian Democrats. But this alliance was torn apart by the fierce anti-EU position of the Centre party, which clashed with the equally strong pro-EU

stance of the Conservatives. The most recent non-socialist coalition, formed in 1988, lasted less than a year before it collapsed under the strain of the then pending application to join the EU. Since then, the Centre party has been led by Ms Anne Enger Lahmstein, who became the champion of the successful anti-EU campaign and who continues to hold the party to a position opposing even Norway's membership of the European Economic Area agreement.

"The Conservatives would very much like to build a credible alternative government alliance, but it is impossible so long as Ms Lahmstein is the Centre party leader," says Mr Henry Valen, a political scientist at Oslo's Institute of Social Studies. "She has also moved the party to the left - in some sense to the left of Labour."

Compounding the difficulties facing Mr Jan Petersen, the leader of the Conservatives, is the recent rise in September's local elections of the populist right-wing Progress party, led by Mr Carl Hagen, a highly skilled media performer.

Progress takes an aggressively anti-immigrant stance - some senior party figures were revealed recently to have links with neo-Nazi groups - and has been ruled out as a potential coalition member or supporter by the Conservatives and its erstwhile partners. But it could well hold the balance of power after the next general election in September 1997.

"As long as there is not a real alternative to Labour, it is hard for the opposition parties to hold the focus of political debate. The Progress party has exploited that vacuum and gained a lot of attention," says Mr Valen.

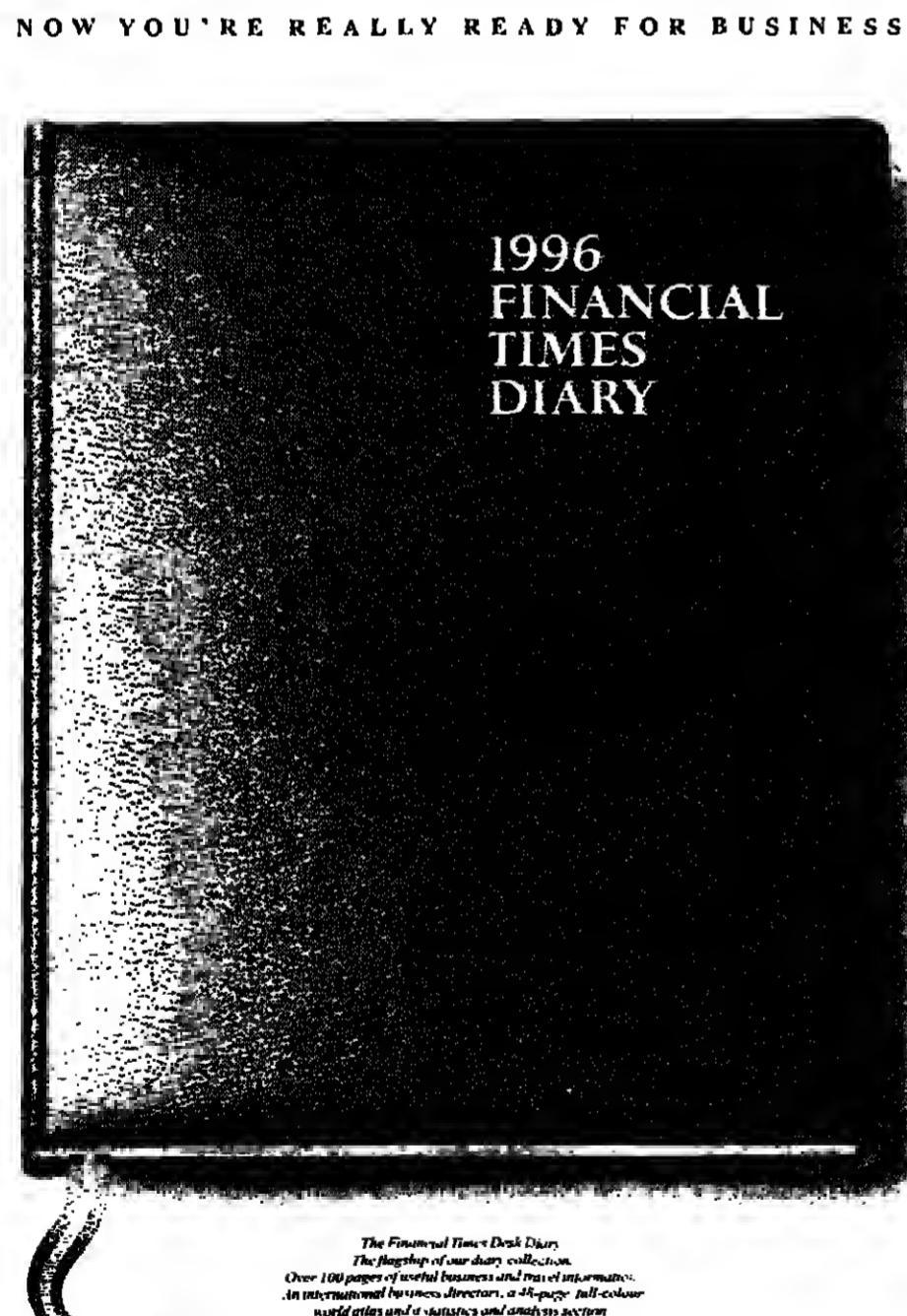
Mr Petersen appears to have had some success in rebuilding support for the Conservatives since the party slipped behind the Centre in the 1993 general election when its pro-EU stance lost it votes. But once again, it is faced with a problem - the adroit shift to the centre by Labour under Mrs Brundtland.

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■ Barents co-operation: by Hilary Barnes

Trying to work with Russia

Both sides of the border should benefit but, despite progress, conflicts still occur

Norway sets considerable store by co-operation with Russia in the Barents region, where Russia and Norway have a common land border.

At government level, the Russians reciprocate partly, perhaps, because Mr Andrei Kosyrev, the Russian foreign minister, is elected to the Duma, the Russian parliament, by the voters of Murmansk.

At the private level, the experience of Norwegian businesses which have tried to invest in the area has not been uniformly successful.

On the other hand, a Norwegian environmental group, Bellona, seems to have gained the confidence of local people in Murmansk by helping the Russians to chart the extent of industrial and nuclear pollution in the region. But Bellona fell foul of the Russian secret police in October, when its computers were confiscated from the Murmansk office.

Although Mr Kosyrev has made several visits to Norway this year and is chairman of the Russian-Norwegian trade committee, project co-operation is not developing at break-neck speed. One reason, as a Norwegian diplomat explained, is that the north-west region of Russia was and is an extremely important military base area.

The mutual benefits from co-operation, however, are potentially great. On the negative side, the region suffers from serious environmental pollution. Western assistance - both money and technology - could do much to help. The pollution is of two kinds - from the metallurgical and oil industries and from radioactive nuclear wastes of both civilian reactors and decommissioned reactors from naval submarines and icebreakers.

On the positive side, the region is rich in mineral and hydrocarbon resources and forests. It is potentially one of the world's largest oil and gas producing regions.

The entire region, on both sides of the border with Russia, has much to gain by re-establishing the trading, cultural and personal relations that flourished for centuries before they were stopped in 1917 by the Russian revolution, as joint



statements by the Russians. The Barents region is a major communications, harbours, and airports, and modernisation of the Pechenga nickel works and the Kandalaksha aluminium works.

All these projects, however, are dependent on financing from international sources, which has yet to be raised.

Just how difficult it is for private companies to work in the region has been demonstrated by the case of a joint venture between R.S. Bjorn, a wood-working company from Troms in Norway, and Russian partners. Bjorn put NKR300m into the Pechenga Nickel plant at Nikel, close to the Norwegian border. The plant is a major source of pollution.

The condition of the Norwegian offer is that the Russians invest a similar sum. As much again must be raised from other sources. So far, the fate of the project is undecided.

Multilateral Barents co-operation is formalised through the Barents Council and the Barents Regional Committee, both set up in 1993. Norway, Finland, Sweden, Russia and the European Union belong to the council. It is the only institution for co-operation between Russia and western European countries in which the Russians are currently in the chair. The council is supplemented by the regional committee, to which the political leaders of the five Nordic countries, Norway's Nordland, Troms and Finnmark, Finland's Lapland and Sweden's Norrbotten, and three Russian regional administrations, the oblasts of Murmansk and Archangelsk and the Republic of Karelia, belong.

Regional co-operation has generated a variety of projects, few of which make a major drain on financial resources, but some of which, such as assistance in improving the standards of drinking water, can have useful and tangible benefits. The Barents Council's work is still in its early stages, but at a meeting of foreign ministers in Finland in October the council agreed to recommend a programme of 15 infrastructure projects, including improvements in road and

The Norwegians suspect the real problems are political. As they point out, Mr Ukhin is a candidate in next month's Russian parliamentary elections for Mr Vladimir Zhirinovsky's right-wing nationalist party, which has little time for foreign involvement in Russia of any kind.

A more encouraging story is told by Bellona, a Norwegian environmental organisation, though even this may still have an unhappy ending. Bellona has spent six years in winning the co-operation of local people for mapping and identifying the extent of pollution in north-west Russia.

It took numerous meetings before the Russians were prepared to accept that Bellona was trying to do something that could be helpful to the people of the region, a period when, says Mr Frederic Hauge, Bellona's leader, he learnt: "In the west you do not do business with your friends; in Russia you do not do business except with your friends."

Bellona has produced technical reports ("We were careful not to use too many adjectives") on the extent and degree of pollution and is working on further reports. Its office in Murmansk now employs five or six young Russians, while four former naval captains are working on reports on nuclear waste, most of which comes from decommissioned submarines.

However, in October the Russian security police raided Bellona's office, alleging that the company was storing sensitive military information in its computers, which were confiscated.

Bellona's reading of this incident is that the raid was instigated by nationalist and communist elements, and that the problems are all part of the campaign for the elections to the Duma in December. Mr Hauge, however, is relying on the strong local popular support for the work which Bellona is doing to persuade the security police to let the company get on with it.

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New stability eases pains of transition

Although it is impossible to underestimate the complexity of the government's task, progress is being made, writes Tony Walker

China may have left the first rush of its historical economic transformation behind, but the process rumbles on. As the half-way point of the last decade of the 20th century approaches, Beijing appears to be making progress towards its twin goals of building a market-based system and achieving integration with the international economy.

However, reformist zeal ebbs and flows. Challenges abound. Chinese leaders face an extraordinarily complex task in their efforts to advance economic reform on many different fronts - from dealing with the problems of debt-burdened state enterprises to the intricacies of changes to the trade and financial systems.

But in spite of the many difficulties besetting the economy, including inflationary pressures, rising unemployment, a weak revenue base and a growing clamour from impoverished inland regions for financial assistance, the outlook is more positive than it was a year ago, in addition, difficulties associated with the political transition appear to be easing.

Chinese leaders are also beginning to talk more openly again about their plans for the economy - a sign not only that there is a fair degree of consensus at the top about the way forward but also that China's rulers are probably more confi-

dent about their ability to advance reforms.

Mr Zhu Rongji, the executive vice premier in charge of the economy in a rare interview provided specifically for this survey (see story page 3), made it clear that the fight against inflation would remain the government's number one priority. But he also indicated that there would be a more concerted effort to tackle the problem of loss-making state enterprises, commercialise the state banks (which are weighed down by non-performing loans), push ahead with the reform of the financial and trade sectors, and effect China's re-entry into Gatt and its membership of the World Trade Organisation.

His announcement that China planned to move to currency convertibility on the current account within the next year or so underlined what appears to be a renewed commitment to external sector reforms. His reference to a lowering of tariffs as a "must" - China's average tariff stands at 35 per cent compared with 15 per cent for other developing countries - revealed an appreciation of the broader implications for the domestic economy.

Mr Zhu, who has carried much of the responsibility for the fight against inflation - which reached 21.7 per cent last year - appears to have drawn confidence from the government's success in curbing price rises to an expected 15 per cent this year. He insists, however, that the battle is far from won - which is why tight credit policies will not be relaxed, except for selective assistance to key sectors and industries.

"The purpose of the macro economic control measures is to control inflation. However,



Under construction: a new era. The image of Mao still dominates Tiananmen Square but publicity posters showing both the ageing Deng and President Jiang emphasise it's time for another generation



Reuters/Action Images

at this moment we're not able to say we have already fulfilled all of the targets. The soft landing is not complete yet. Therefore, the macro economic control measures will continue," he says.

Mr Zhu has good reason to be wary. China's success in reducing inflation has been bought partly at the cost of reimposing price controls on basic commodities and services. The economy, which is continuing to simmer - with GDP growth this year expected to be around 10 per cent compared with 11.8 per cent last year - could quickly boil over, as it did after Mr Deng Xiaoping issued his famous demand in 1992 for speedier economic development.

However, a repeat of that call from the ailing architect of China's modernisation is most unlikely. The new generation of leaders was unversed by the problems it spawned. China has avoided hyper-inflation for the moment, but strong inflationary pressures could speedily re-emerge, feeding dissatisfaction across the country, as they did in 1988 and 1994.

Unhappiness was especially profound in potentially volatile industrial cities, where unemployment may now be as high as 20 per cent. The peasantry

was also hit hard: rural areas - where the rapidly increasing costs of pesticides and fertilisers had further squeezed meagre incomes - had not enjoyed the same improvements in living standards as the towns.

While China may have improved the lot of its 800m peasants since the commune system was dismantled and private commerce was permitted 15 years ago, the livelihoods of a vast number of farming families remains precarious. Average rural holdings of 0.42 hectares per family means the scope of farmers is severely limited.

With surplus farm labour estimated at up to 200m, China's management of its vast rural populace represents a huge challenge that will endure well into the next century. Between 1980, the year Mr Deng's reform programme effectively got underway, and 2000, China's population will have grown by 300m to 1.3bn. (It passed the 1.2bn mark in February.) Assuming birth control measures continue to be relatively effective, the figure will level off at around 1.6bn in the year 2050.

These statistics help to put into perspective the awesome task facing China in its efforts to continue providing

improved living standards for a restless people whose hopes have been raised. China's rulers understand that an uneasy compact with their subjects is based not on mutual regard, or necessarily even fear, but on their ability to satisfy aspirations for a better life. Should these were to be broken, retribution could be severe.

Population pressures, poverty, and surplus rural labour drifting to the cities are all part of a wider problem that is presenting the authorities with one of their biggest headaches: the widening gap between wealthier coastal regions and the impoverished interior. The regional disparities question has emerged as a critical challenge for Beijing, which is being obliged to address the issue with a new package of policies, including additional budgetary assistance to the interior. However, Chinese officials admit that for the time being the "rich-poor gap" is likely to become wider not narrower.

This was also the verdict of a recent World Bank study, *China: Regional Disparities*, which concluded that the gap between the coast and interior regions is "large and worsening".

It reported that since 1978, the year Mr Deng re-emerged to take charge, that gap has widened to "nearly 2-to-1, with the increase accelerating since 1985".

While China's leaders are preoccupied by economic issues, they also continue to be engaged in a game of transitional politics. The fifth plenary session of the 14th Central Committee held in Beijing in late September approved new appointments to the Central Military Commission - China's high command - and these were thought to be bolstered the president, Mr Jiang Zemin.

Mr Jiang has become more assertive this year as an emboldened Mr Deng has faded further from the scene - an indication that the way is now relatively clear for him to put his stamp on the leadership. The last time China's patriarchal leader was seen in public was in early 1994. His health is thought to be so precarious that he is virtually beyond influencing developments; although as long as he breathes, China's new generation of leaders will feel somewhat constrained.

Prospects for a smooth transition appear to have been enhanced, but this does not

preclude a power struggle at some point after Mr Deng goes. The Communist Party has a legacy of unresolved issues that cannot be dealt with while he lives. Not least of these are the events leading up to the killing of hundreds of demonstrators involved in pro-democracy protests in and around Tiananmen square in 1989. At some point, a serious accounting of what took place will be necessary, and that will no doubt include an assessment of Mr Deng's own role.

China's leaders have this year also been embroiled in the issues of Taiwan and Sino-US relations. Relations chilled between Beijing and Washington over a visit in June to the US of Mr Lee Teng-hui, president of Taiwan, but a meeting between the US president, Mr Bill Clinton, and Mr Jiang in New York in October appears to have helped improve the climate. Taiwan, and such issues as arms transfers, human rights, China's entry to the World Trade Organisation, intellectual property rights and a widening trade gap in China's favour, are, however, likely to mean a continuing uneasy relationship.

China's hard-pressed rulers are set for another difficult year.

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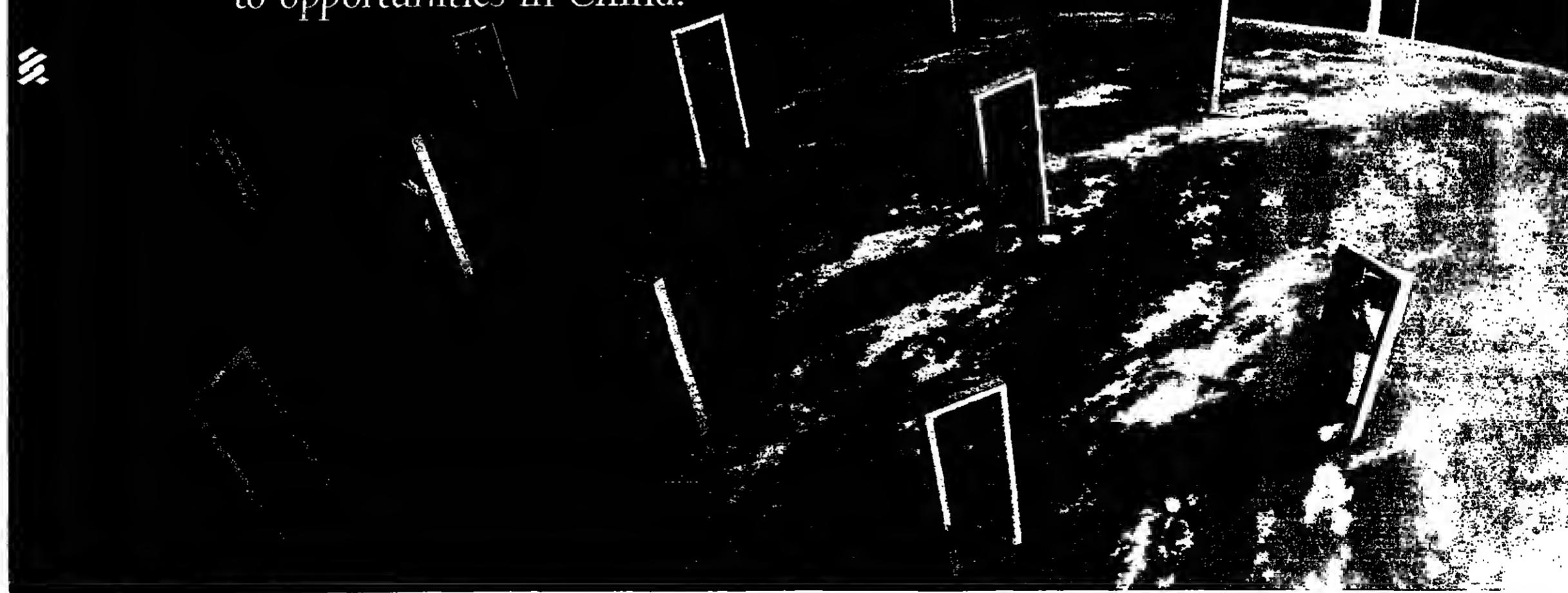
● Renaissance man: Mr Zhu Rongji and his subordinates have effected a remarkable economic transformation. In a rare interview, the vice premier in charge of economy talks about his plans Page 3

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● Disparity begins at home: the strained relationship with the US is nothing compared with the 'rich-poor' gaps between Chinese regions. A focus on three areas Page 6

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INTERNATIONAL NETWORKING

2 CHINA

■ Politics: by Tony Walker

Deng's successor treads careful line

To secure his position, the president is trying to appease the factions

When the 14th Central Committee of the Chinese Communist Party concluded its fifth plenary session in Beijing in late autumn its final communiqué revealed that party leaders continue to be more preoccupied with housekeeping than they are with grand policy initiatives.

Appointments to key posts provided the eye-catching detail of the plenum's deliberations, rather than new policy directions.

Nevertheless, personnel changes, especially in the military, indicate that further progress has been made in securing an orderly transition to a post-Deng Xiaoping era.

The new appointments appear to have helped President Jiang Zemin, although his attempts to strengthen his position will continue to be subject to the factional checks and balances that are part and parcel of the Chinese system.

Mr Jiang, who has been working assiduously to cultivate the military, saw several of his supporters, includ-

ing General Chi Haotian, the defence minister, added to the powerful Central Military Commission (CMC) - China's high command.

But at the same time, it was clear that Mr Jiang did not have everything his own way. He would probably have preferred it if General Wang Ruolin, the long-serving private secretary to Mr Deng, had not found a position on the CMC, but the fact that he was promoted indicates that - despite poor health - the patriarch's influence continues.

China's leader was also obliged to accept the enduring presence of the CMC vice-chairmen Zhang Zhen and Lio Huiping. The two Long March veterans were installed several years ago by Mr Deng to help oversee the leadership transition.

Joining Generals Zhang and Liu, and Defence Minister Chi as vice-chairmen of the CMC is General Zhang Wannian, the 67-year-old former chief of the army General Staff. Gen Zhang is not conspicuously associated with any faction, but his appointment is considered a plus for Mr Jiang since he represents relatively new blood at the top of the Chinese military, and owes his promo-

tion partly to the intervention of the president.

Mr Jiang, China's 63-year-old leader, suffers from lack of combat experience and thus credibility with the military. His heightened attempts recently to strengthen links with the generals is perhaps the clearest indication yet that China's leadership transition has entered something of an "end-game". Since his surprising elevation to General Secretary of the Communist Party in June 1989, after the Tiananmen Square massacre, and subsequently to the posts concurrently of state president and chairman of the CMC, Mr Jiang has trodden a cautious line, more self-effacing than assertive.

But this year he has appeared determined to raise his profile in China and abroad. He is travelling overseas more frequently and in his domestic appearances he has tried hard to assume some of the clothes of the dominant figures of post-1949 revolution, namely Mao Zedong and Mr Deng.

At September's fifth plenum, Mr Jiang's 10,000-word keynote address was entitled: "On the correct handling of the 12 major relationships". This

recalled Mao's polemical address in 1958 in which he sought to rally the nation with a speech "On the 10 great relationships".

Mr Jiang, in his domestic politicking, has been behaving a bit like a politician running for office in the west, seeking to secure his position without alienating the military and the liberal and conservative factions.

In his efforts to cultivate liberal elements he paid his respects earlier this year at the grave of Mr Hu Yaobang, the former party boss, who was dumped in 1987 because he was regarded as too reformist. In his attempts to appeal to the conservatives Mr Jiang is reported to be backing a new literature college to be named after Mao and built in Changsha, Hunan, near Mao's birthplace.

Mr Jiang also chose to bare his teeth in the political infighting that goes with the power games at the top of the Chinese system. It was Mr Jiang, it is said, who spearheaded moves against Mr Chen Xitong, the former party secretary of Beijing, who was removed from the politburo by the plenum after he was accused of misusing his position.

Mr Chen is easily the most senior

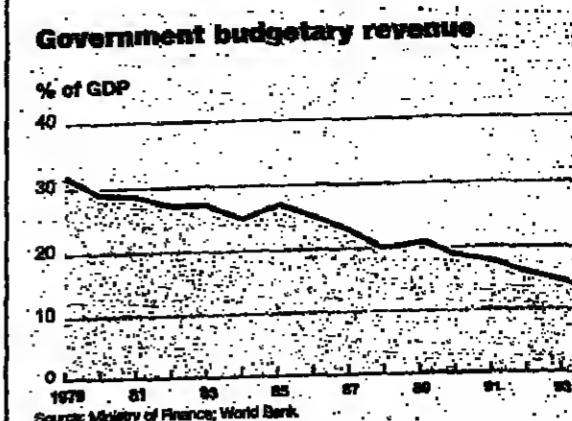
official to have been ensnared in the anti-corruption campaign that was launched in August 1993. The campaign has ebbed and flowed in line with the party's need to satisfy what it sees as public demand for action against officials.

But the Chen Xitong episode was revealing since its handling appeared to suggest a firming of the consensus among top officials of the need for a stronger anti-corruption campaign.

The Beijing municipality had become notorious, but it is doubtful that Mr Jiang would have moved against Mr Chen had he not been a political rival.

The tough Beijing party boss had made little secret of his reservations about Mr Jiang's ability to take command of a country of 1.2bn in what is being described as the "new era" - the post-Deng period. Many Chinese continue to share those reservations, in spite of assiduous propaganda attempts to amplify Mr Jiang's position as the "core" of the leadership.

While China's leader has made progress in the past year in his efforts to strengthen his grip on power, he still has to convince people he will prove a durable figure in the emerging epoch.



Mixed record on tax reform

The fiscal system in place until the end of 1993 suffered from three fundamental defects: the dependence of central government on the uncertain fulfillment by local governments of contractual obligations to transfer revenue; the lack of consistency, partly explained by the incentives offered to favoured enterprises by local governments; and the steep decline in the ratio of budgetary revenues to gross domestic product, from 34 per cent in 1978 to 13 per cent in 1993 and, within this, the falling share of central government from about 60 to 40 per cent.

These defects had to be remedied. To do so, the reform introduced in January 1994 created a national tax administration; introduced a value-added tax; unified the taxation of enterprises and of personal incomes; and established a transparent division of revenue between central and local government, which was expected to raise the central government's initial share to about 60 per cent.

Mr Xiang Huacheng, vice-director of the state administration of taxation, and his chief, Mr Liu Zhongli, the finance minister, argue that this complex transformation has proceeded without observable ill-effects. Unhanded fiscal exemptions by local authorities have been curbed, though not, admits Mr Lin, eliminated.

VAT generates 58 per cent of all revenue. Receipts from the industrial and commercial taxation levied on 14.2m enterprises were Yn46.3bn in 1994, up 26.6 per cent from 1993. They reached Yn374.1bn in the first nine months of 1995, up 29.1 per cent over the same period in 1994.

Significant administrative problems remain. While 50 cities are now linked by computer, within two years computerisation should cover 370 cities, which generate more than 70 per cent of total revenue. Legislation must be completed for aspects of the system now governed by interim regulations.

More important still are measures to curb evasion and

fraud, a noteworthy example being the explosion of dubious claims for VAT export refunds, which compelled the government to lower the rebate rate, from 17 to 14 per cent, as of July 1 1995.

Yet the most urgent problem of all is the failure of the reform to reverse the steep decline in the share of fiscal revenue in GDP, which fell by a further two percentage points last year. This was partly because inflation affected nominal GDP, which grew by 40 per cent, much more than fiscal revenue, which rose only 19 per cent. Performance in the first three quarters of 1995 was somewhat better, but the revenue ratio merely remained static.

Mr Xiang's response to this concern is that the aim of reform was not to increase the tax burden, but to improve the fiscal mechanism. This may be true but the continuing fiscal drought creates huge difficulties for China: it undermines the central government's power to assist poorer regions; it encourages parts of government to go into business, confusing public and private interests; and it has compelled government to rely on off-budget resources, particularly directed lending by the People's Bank of China, with adverse consequences for monetary control and the transparency of public accounts.

Since 75 per cent of enterprises apparently bear either the same tax burden or even a lower one than before 1994, the lack of widespread opposition is hardly surprising. But the tax burden must rise if government is to obtain the additional revenue it needs.

One approach might be a higher personal income tax. This raised only Yn72m in 1994 and Yn4.8m in the first nine months of 1995, partly because fewer than 2 per cent of individuals are liable to it. Whichever way is chosen, the fiscal burden must start to rise, casting doubts on whether reforms will then remain so popular.

Martin Wolf

■ Foreign policy: by Peter Montagnon

The domestic objective prevails

Diplomatic efforts seem to focus on protecting national sovereignty

"China has posed no threat and committed no aggression against other foreign countries today, nor will it do so when it is developed and powerful in the future. The so-called China threat is nothing but an absurd argument to intimidate people."

Thus Mr Qian Qichen, foreign minister, sought to calm fears about China's foreign policy during his recent visit to London. That China has acquired something of a reputation as a bogeyman is not surprising, given its strident response to this summer's US trip by Mr Lee Teng-hui, Taiwan's president, and its unfriendly claim to sovereignty over the disputed Spratly Islands in the South China Sea.

But Mr Qian's remarks were a reminder that China's motives might be misunderstood. All the main foreign policy issues which have preoccupied Beijing this year - Taiwan's

efforts to gain international recognition, the return of Hong Kong in 1997 and the Spratly Islands - involve China's deep concern with what it perceives as its own sovereign integrity. These issues have caused worrying clashes, notably with the US, but it would be rash to conclude that China has switched to a more assertive tack.

Chinese and western analysts see two main forces behind Chinese diplomacy. The first is Beijing's preoccupation with the task of securing internal stability and economic development. This leaves little room for expansionist ambitions abroad. Instead, the main diplomatic effort aims to prevent the domestic objectives being thwarted by outsiders.

The second is the belief, based on a view of pre-revolutionary history as a time of humiliating foreign domination, that one nation should not interfere in the internal affairs of others.

China reacts strongly when it feels its sovereignty infringed, as in the case of Taiwan. It resents US human rights activists who it regards as

interfering with its internal affairs. But unlike the US, China has no soldiers on foreign soil. There is even, as President Jiang Zemin noted in New York last month, ambivalence towards UN peace-keeping operations when they are simply a disguised form of interference in the internal affairs of others. This is a far cry from a vision of a new superpower bristling with extra-territorial ambitions.

Instead, a main thrust of its diplomatic message is that a stable and prosperous China is the best guarantee of regional security. "If China, a country with a quarter of the world's population, remains underdeveloped in prolonged poverty and backwardness, that will cause serious consequences to peace and stability in the Asia-Pacific region and in the world at large," President Jiang told the UN.

Beijing's acute anxiety over Taiwan should probably be seen in this context. It cannot afford to concede the principle of secession, least of all when economic and social transition risks being divisive at home. Taiwan's drift towards support for a unilateral declaration of independence as it prepares for its first free presidential election next year could hardly have come at a worse time.

China's immediate objective is to maintain Taiwan's international isolation in the face of this drift. Its response to President Lee's visit may have seemed excessive. Bilateral relations with the US sank to a nadir, several official exchanges were cancelled and China's ambassador to Washington was recalled.

Yet Chinese diplomats say Beijing had to stop what appeared to be a rehabilitation of Taiwan. President Lee's US trip must be seen against the backdrop of official Taiwanese contacts with Japan at last year's Asian games and a visit to Taipei by Mr Federico Pena, US Transport Secretary.

Most countries would now think twice before making any new concessions to Taiwan, but the damage to China's relationship with the US has been considerable.

For both sides the relationship is a crucial one. But an atmosphere of mutual suspicion remains, despite the relatively positive tone set by the meeting of Presidents Clinton and Jiang in New York last month.

In contrast, the relationship with the UK - described as the second most important bilateral one after the US as the handover of Hong Kong draws closer - has turned more cordial - symbolised by this summer's agreement on one vexatious issue, the establishment of a Hong Kong court of final appeal. Though the agreement involved significant concessions by Britain, China's leader has made progress in the past year in his efforts to strengthen his grip on power, he still has to convince people he will prove a durable figure in the emerging epoch.

As for the Spratly dispute, China has also taken a more moderate tone since it met other Asian countries in Brunei in August.

Perhaps China recognises that, despite its naval build-up, it is still relatively weak militarily. Any trial of strength with the rest of Asia in the coming years is likely to be fought largely on the economic front.



Worries of a grain shortfall have focused efforts on farm output

■ Agriculture: by Peter Montagnon

Demand outstrips supply

Feeding the population and maintaining farming incomes are now priorities

Worries about food shortages as China's growing population becomes more affluent have made agriculture a priority issue for the central government.

Last year's warning by the US economist, Mr Lester

Brown, of the Worldwatch environmental research group, that China could face a grain shortfall of 216m tonnes by the year 2030 set off alarm bells in the capital. It has sparked lively debate on the likely size of the deficit and on appropriate policies for containing it. Agriculture features large in the new five-year plan.

Rural development is a challenge of daunting dimensions. Three quarters of China's 1.2bn people live in the countryside. China must offer incentives to farmers to produce food and keep prices affordable to urban

dwellers. It must prevent too many switching from grain to more lucrative cash crops such as fruit. It must develop light industry to absorb surplus labour without losing too much arable land to factories.

Present policy is groping towards the right balance. While some alternative jobs are being created, the government also aims to maximise farm output through investment in technical know-how, infrastructure and improving the quality of inputs such as seeds and fertilisers.

But the future is not necessarily as bleak as Mr Brown suggested. China claims it can cope with higher demand for food. Other experts say any shortfall may be smaller than he predicted.

A study in the summer by economists from the China National Rice Research Institute, Stanford University and the International Food Policy Research Institute said China would only need to import 50m tonnes of grain annually by 2020.

More recently, Japan's OECF aid organisation said the shortfall might be 136m tonnes by 2010, but added that the amount could be halved with the right policies.

China has an impressive record for increasing grain output since the 1978 agricultural reforms. Production increased by 46 per cent to 445.1m tonnes in 1994, but the straits are beginning to show as the more industrial coastal provinces become less self-sufficient. Increased meat consumption has intensified demand for feedgrain and western experts say about 100,000 to 300,000 hectares are lost to grain production each year. China already imports wheat, rice, maize and soybeans, though in modest amounts.

As one incentive, the government last year increased by 40 per cent the official grain procurement price at which the state buys up to 30 per cent of farmers' output. But western analysts say the increase was swallowed up by higher government levies and taxes.

China has also recently introduced a scheme making provincial governors, not central government, responsible for ensuring supply and demand are balanced in their territory.

They can import from and export to other provinces, but they may not engage in international trade. This is designed to prevent them from buying cheap grain at the procure-

ment price and selling it at a high price on world markets, but it leaves Cerdic, Beijing's trading company, with a lucrative monopoly.

It is too early to tell what impact this system will have, but the emphasis on trading between the provinces attacks an important weakness in the sector. The notion of competitive advantage is alien to Chinese agriculture. At all levels - family, township, provincial and national - the instinctive concern is with self-sufficiency in all products, regardless of how easy they are to grow.

Trade between provinces is limited and impeded by poor transport connections. "When we have abundant harvests it is hard to sell agricultural products in other provinces. Even if we do sell them, it is hard to get paid," says Mr Wen Zhengling, director of Sichuan's agriculture department.

Encouraging more internal trade might increase efficiency and specialisation in Chinese agriculture, but a liberal approach is less likely to apply to international trade. Central government views China's ability to feed its population as a matter of national security. It does not want to depend on imports, least of all from the US, the motives of which it suspects. China fits into the camp of those who want to exclude the farm sector from trade liberalisation discussions in the Asia-Pacific Economic Co-operation forum.

China has not yet gone down the emphatically protectionist route of countries such as Japan and South Korea, which banned rice imports to help farmers as their economies industrialised. But protection of farm trade may be one way of preserving rural incomes.

"China is at the cross-roads," says Mr Wen Hui of Beijing University's Centre for Economic Research. "Either we choose a free trade policy and import at low prices, or we start to build up trade barriers. Most policy-makers prefer protection."

CHINA REPORTS

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■ Economy: by Martin Wolf

Time for radical action

The government needs to make further changes if it is to build on its achievements and secure long-term stability

Mr Zhu Rongji, the executive vice-premier in charge of the economy, and his subordinates - such as Mr Dai Xianglong, the governor of the People's Bank of China (PBC) - can look out their work and find it good. Under their management, China seems to have achieved a "soft landing", with high economic growth, reduced inflation and a strong balance of payments.

Retail price inflation was 21.7 per cent in 1994, up from 13.2 per cent in the previous year. In response to fears of consequent social unrest, a stabilisation programme was introduced in July 1993. Its

effect on China's economic growth was apparent in 1994, when real gross domestic product grew "only" 11.8 per cent, down from 13.4 per cent in 1993 and 13.6 per cent in 1992. Growth this year is expected to be close to 10 per cent.

Lower inflation followed closely behind. In the first three quarters of 1995 retail prices were 16.6 per cent above the same period of 1994, and this year's target of 15 per cent now looks certain to be achieved. But this plays down the decline in underlying inflation, since the retail price index in September was only 2.2 per cent higher than in February. Furthermore, non-food inflation has been falling since July 1993, although food-inflation peaked at close to 45 per cent in late-1994, because of weaknesses in agriculture (see chart).

Since loans carry nominal interest rates of at least 11 per cent, real rates of interest are now burdensome. But the fall-

ure of many state-owned enterprises (SOEs) to service their debts means that limits on credit, buffeted by the growing prudence of commercial banks, has been the real constraint upon them. These measures have slowed the growth of investment in the first nine months of 1995. Nominal investment of SOEs in fixed assets was 18 per cent above that of the same period of 1994; last year, in contrast, the year-on-year rise was 44 per cent.

Monetary control has also improved: M0 grew 15 per cent in the year to September 1995, against a target of 15 per cent, while M1 growth is also within its target of 21 per cent. But broad money, M2, has grown 30 per cent, against a target of 25 per cent. This pattern of expansion has reduced money's liquidity. But the broad money supply has still risen too rapidly, partly because savings have few alternative outlets and partly because financial institutions managed to

expand their assets, despite the credit controls.

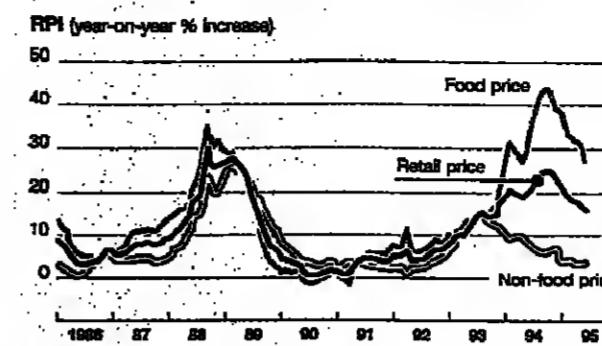
Fortunately, China's trade performance has allowed output growth to slow by far less than domestic demand. In January to August of 1995, imports rose only 15.3 per cent over the same period of last year, to \$75.3bn, while exports reached US \$84.6bn, an increase of 37.2 per cent. If the trend were to continue, exports could exceed \$160bn in 1995. This performance was boosted by the anticipated reduction in VAT rebates. But the main cause was curbs on domestic demand, combined with expansion in export supply.

Along with continued net imports of foreign capital, the trade surplus has raised foreign exchange reserves from less than \$20bn in mid-1993 to \$72.9 at the end of last month. Reserve accumulation has driven the expansion of the monetary base this year. To neutralise the effects, the PBC has withdrawn credits advanced to financial institutions, increased reserve requirements on banks and sold bonds.

Despite such minor worries, the authorities must find the overall picture delightful. But they refuse to delight in it. On the contrary, they insist that the battle against inflation is not won. Mr Dai Xianglong stresses six risks:

• lack of a credible bankruptcy constraint upon SOEs;

Inflation: food and non-food



Source: Chinese Statistical Yearbook; World Bank

official target of 8 per cent a year seems modest for a country with an abundant supply of labour and a savings rate of 35-40 per cent of GDP.

If China is to combine low inflation with high growth, it must deepen the economic transformation. Priorities include SOE reform, elimination of the budget deficit, intended to be completed by 2000, commercialisation of the banks, prosecution of the tax reform, trade liberalisation and convertibility of the currency on current account. In addition, the government must respond to concern over the uneven distribution of the benefits of past growth.

There are close links among these elements of the agenda.

- SOEs will cease their excessive and inefficient investment only if bankruptcy is made credible. If this is to happen, the government must be able to provide a social safety net.
- Trade liberalisation and currency convertibility will exacerbate the pressure on failing enterprises.
- Open money market operations by the PBC imply movement towards market interest rates, which loss-making

enterprises would be unable to pay.

• A market-led financial system demands healthy commercial banks. At present, these banks have impaired loans equal to 20 per cent of their assets. Their balance sheets must be cleaned up.

• To enjoy a more even pattern of development, China must develop an integrated capital market and improve infrastructure in poor areas. This demands further financial reform, as well as far more fiscal revenue.

Mr Deng Xiaoping's achievement was to let some Chinese show what they could do under market incentives. The task for those now in charge is to build on his success. The needed reforms are both more complex and more controversial than those undertaken hitherto.

• The more complex because of the inter-relationships among them, more controversial because there will be many clear losers. But China has little alternative. Reform must tackle the most baleful legacies of the past. If today's lower inflation is to turn into sustained, stable and equitable growth tomorrow.

Interview

Zhu Rongji, executive vice-premier in charge of the economy

'We had anticipated more risk'

Mr Zhu Rongji, China's executive vice-premier in charge of the economy, spoke to the *Financial Times* in Beijing recently for its annual survey. What follows are his observations on key issues facing the economy.

Credit restrictions
"So far these measures have yielded great success and we are getting closer to the objectives of these macro economic control policies - the purpose of which is to control inflation. However, we're not able to say we have fulfilled all targets. The soft landing is not complete yet. Therefore, the macro economic control measures will continue."

Inflation
"For the ninth five-year plan period, that is, from 1996 to the year 2000, we plan to have an annual growth rate of 8 per cent. We must keep the inflation rate below our economic growth rate. For me, it would be the best if [inflation] is below 5 per cent - still high by western standard, but not by Hong Kong standards. For a developing country like China it is very difficult to reduce the inflation rate to 5 per cent

in a very short period of time. We think a 5 per cent inflation rate would be acceptable to the people. To achieve this, we must first of all control the budget deficit... and we hope to wipe it out by the year 2000."

State enterprise reform
"In 1994 we carried out extensive reform measures in accordance with the market economic principles. So far, all these are concentrated in the macro economic area, meaning reforms in fiscal, banking, taxation, foreign trade, foreign exchange and investment sectors. We have not had time to focus on the micro aspects of the economy, and one of the key issues of the micro reforms is the state enterprises. Next year, we will spend more time and energy on the reform of the state enterprises."

Commercialisation of the banks
"Since the beginning of 1993, we have introduced a lot of reform measures to China's state banks. We have separated the policy-lending banks from the commercial lending banks; we have established three policy-lending banks. But... if

the state banks are to be genuine commercial banks, we have to wait till the completion of the reform in the state-owned enterprises - we would try to attain this goal at the end of this century."

Interest rate reform and open market operations
"It's true that before the completion of reform of state-owned enterprises the role played by the interest rate system in China will not be very significant. It will take time before the banks in China can make timely readjustment and control the national economy by utilising the tools available to them - including interest rate, exchange and open market operations. The most important thing is to complete the transformation of the operational mechanism of the state-owned enterprises."

Regional disparities
"The regional economic gap has always been a matter of concern to us, but this problem is caused by history. I am afraid in the short term the gap will not be narrowed - on the contrary, the gap

might widen. At present, the focus in our work is to bring about rapid development in China's mid-west. However, we should not seek this objective at the expense of growth in the coastal areas."

Tax breaks for foreign investors
"Preferential policies should be basically unchanged. Why basically? Because the current policies and the current favourable tax policies given to the special economic zones are adopted in the transitional period that will lead China into a socialist market economy and make it integrated with common international practice."

But since we are trying to integrate the Chinese economy with the world economy so as to be in compliance with the principles of Gatt and the WTO it's impossible to avoid making the necessary readjustments in these policies."

Currency convertibility
"In the past, the market in China was only a market for the RMB. In the future, it will also be a market for foreign exchange. Originally, we planned to make our currency convertible in five years'



Entry to the world trade organisation
"I think every condition is ripe for China to re-enter Gatt and become a member of WTO. China will definitely assume its obligations. By any measure China is still a developing country... so it will assume obligations commensurate with a developing country. No matter how much desire and interest we have in becoming a member of WTO, China should not be expected to assume the obligations for a developed country."

Tariff reduction

"The current tariff level of China is very high... the average tariff level for developing countries is about 15 per cent, but now for China the level is 35 per cent... To be consistent with international practice, we will have to reduce tariffs to at least the average level of developing countries, 15 per cent, that is a must."

Pace of reform
"At the 14th national congress of the Chinese communist party, we decided to establish a socialist market economy. The pace of progress has generally been the same as we envisaged. Originally, we had anticipated more risk - but, as it turned out, we have seen less risk and more success."

Tony Walker and Peter Montagnon

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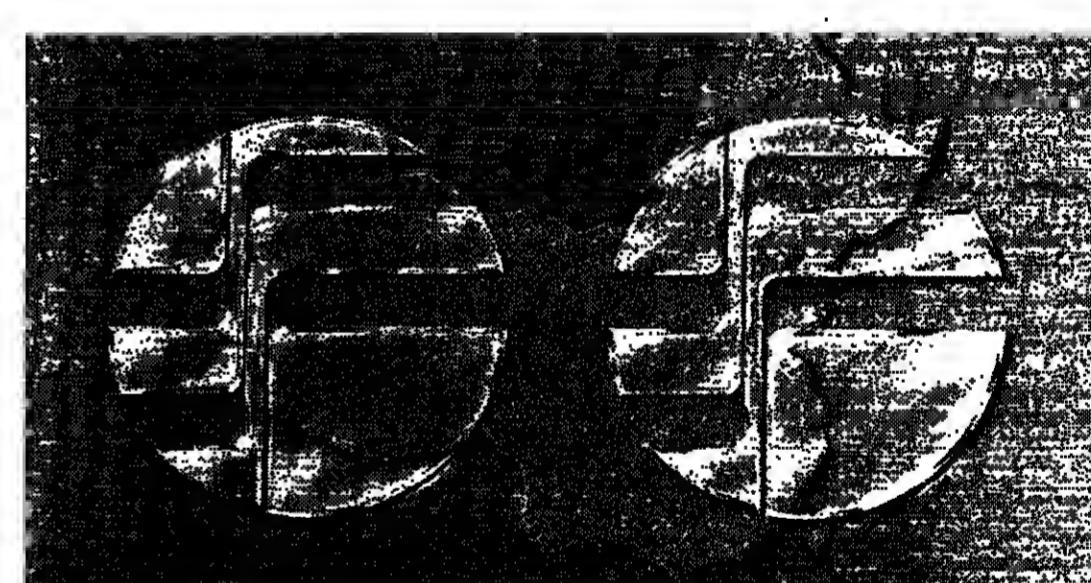
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4 CHINA

■ **Trades by Martin Wolf**

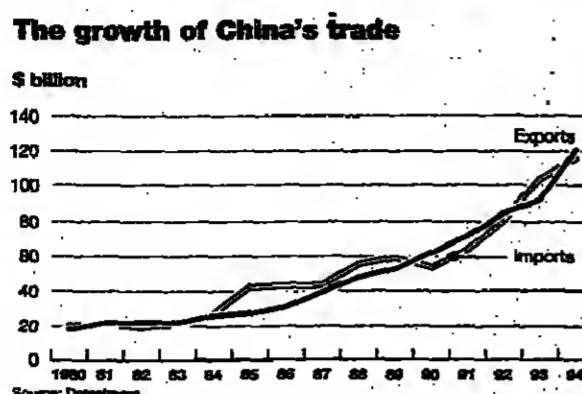
Doubts mar talks

Negotiations with the WTO will hinge on the ability of both sides to make a leap of faith

China has become a significant force in world trade. Its exports and imports are already close to those of the Netherlands and Canada. It could even be the world's fourth largest trading nation - after the US, Germany and Japan - by the end of this decade. This dynamism is both exciting and disturbing to its trading partners. The fact that China's negotiations to join - or re-join - the GATT (now the World Trade Organisation) have been stumbling along for nine years indicates just how disturbing.

China's merchandise exports were US\$121.0bn and its merchandise imports \$115.7bn in 1994. Its global rank was 10th in both categories, while its share in world trade was 2.8 per cent, up from 0.9 per cent in 1978. By comparison, it is relatively insignificant in commercial services, with exports of \$12.5bn, imports of \$12.1bn and a rank of only 22nd.

A further jump in China's



leads to bilateral balances.

Friction between the US and China bedevils more than the purely bilateral relationship. It is also a central element in the long debate over China's membership of the WTO.

As is usual, these accession negotiations are two-pronged: one is agreement on a protocol of accession, the other is a series of bilateral negotiations on market access in goods and services.

The following areas of significant disagreement remain over the protocol itself.

• Judicial review: China is asked to provide independent tribunals. It has agreed in

phase out of that system.

• Reservations by WTO members: China wants members to list prohibitions and discriminatory restrictions against its exports and agree a timetable for phase out. It wants this to cover US conditional most-favoured nation treatment as well.

• Transitional review: China is asked to accept a two-year review of its implementation of the protocol and the WTO agreement. It has agreed, but wants a date for termination of this special review.

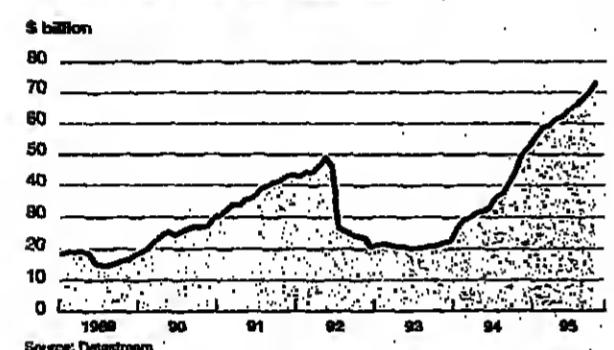
• Sector-specific safeguards: the US and the EU are seeking both a general and a product-specific safeguard. This China adamantly rejects.

• Sector-specific transition periods: China is asked to justify any requests for special transition periods. China has made no special requests, except for trade-related intellectual property.

Negotiations are also proceeding on market access. Mr Zhu Rongji, executive vice-premier in charge of the economy, admits that China's tariffs, which average 35 per cent, need to be reduced over a number of years towards the average of 15 per cent in developing countries.

Behind these negotiations lies a deeper concern: whether regulatory agreements with Beijing will be implemented throughout the country. The issue is perfectly exemplified by problems over intellectual property. Last February a copyright agreement was signed by the US and China, after Washington threatened penalties against Chinese exports. But leading music publishers complain that piracy is as bad as ever.

Most trading partners would agree that China is too big and potentially too important not to be inside the WTO. Its participation in the Asia Pacific Economic Cooperation forum, though valuable, can be no substitute. The technical disagreements over WTO accession could also be reduced at the informal meeting of the WTO's working party on accession in December. But if negotiations are to be concluded, both sides need to make a leap of faith. China must embrace a law-based system that will penetrate its economy. Its partners must believe that China can and will live by the rules. The accession negotiations have not been completed, because the faith has been absent. They could remain incomplete for the same reason.

Foreign exchange reserves

share in world merchandise trade is occurring this year. Exports in the first eight months of 1995 were 37.2 per cent above their US dollar level for the same period of last year, while imports, by contrast, grew only 15.3 per cent. The resulting trade surplus, at \$15.3bn so far, has become a source of friction with the US. This is still more true of the bilateral surplus.

The US and China do not even agree on how to measure the latter. The main difficulty arises from the role of Hong Kong as an entrepot. In the first eight months of this year, for example, 26 per cent of China's exports went to Hong Kong, compared with 18 per cent directly to Japan and 17 per cent to the US. Since China excludes Hong Kong's re-exports from its statistics, it admits to a direct bilateral surplus with the US of \$7.4bn in 1994 and \$8bn in the first eight months of 1995 (an annual rate of \$12bn). But the US claims that its bilateral trade deficit this year might be \$38bn, up from \$30bn in 1994. Mr Shi Guangsheng, vice-minister in the ministry of foreign trade and economic co-operation, rejects both the US calculations and the undue attention

some, but not all cases.

• Trading rights: China is asked for full liberalisation of the right to engage in foreign trade within three years. It has proposed staged liberalisation over eight years.

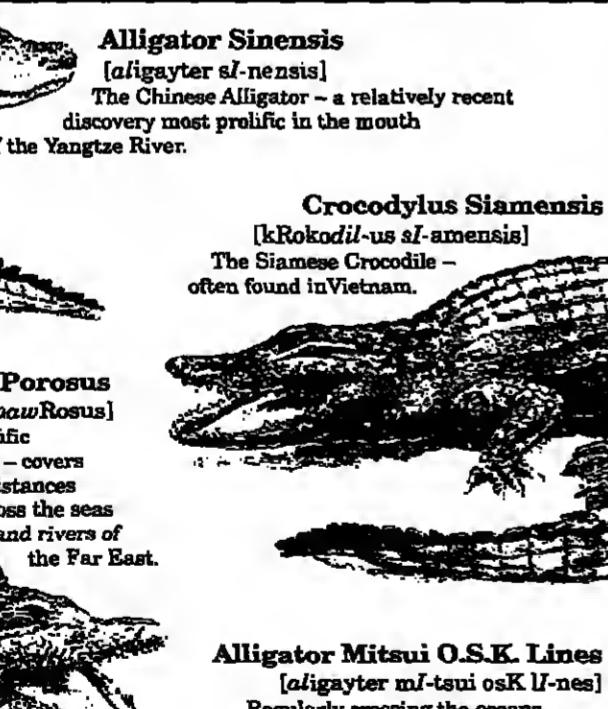
• Non-tariff measures: China is asked to phase out listed measures and, by some, to include industrial policies. It has submitted an alternative list.

• Price controls: China is to agree a list of goods and services that may be put under such controls. It has submitted an alternative list.

• Subsidies: China is asked to provide these transparently and to phase out listed subsidies. That list remains controversial.

• Balance of payments measures: China is asked to use only price-based measures and to notify the WTO at the time of their announcement. It refuses to go beyond WTO obligations.

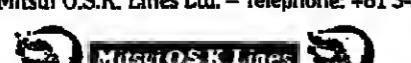
• Standards and technical regulations: China is asked to list products subject to inspection, along with applicable standards. It is also asked for an immediate phase out of its two-tiered system for inspection of imports and domestic products. It seeks a period for



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■ **Foreign direct investment: by Peter Montagnon**

Focus shifts to high-tech sectors

Despite the threat of a new tax regime, overseas interest is strong

Two apparently conflicting trends currently affect foreign direct investment in China. More cash has been flowing in as past pledges are realised, but the level of new commitments has fallen. Official figures show the amount of foreign investment paid in during the first nine months of this year rose by 11.9 per cent to \$25.4bn compared with the same period of 1994. By contrast, new commitments fell 18.3 per cent to \$24.5bn.

The higher paid-in investment rate reflects the surge in commitments in previous years, but the pattern also suggests China may be finally succeeding in improving the quality of its foreign investments as some of the speculative froth is blown off.

Part of the fall may reflect a slowdown in investment by Taiwan as relations between Taipei and Beijing deteriorated this year, but Western analysts say there has also been a fall in contracts for speculative real estate ventures. China clamped down last winter on amenities such as golf courses and the luxury apartment and villa developments that have taken root on the outskirts of many cities.

According to Mr Shi Guangsheng, vice-minister for foreign trade, total paid-in investments now exceed \$120bn. More than 240,000 enterprises

have been approved, of which half are operational. Mr Shi detects a trend towards larger projects, with more emphasis on infrastructure and a gradual shift away from the coastal regions to inland provinces where wages are lower. Such a development would be in line with official policy.

In July, China issued new guidelines for foreign investment that set out to move the focus away from the labour intensive manufacture of consumer goods. Instead China is looking for investments with a higher technological content in areas such as micro-electronics, aviation and biotechnology. It is also stepping up efforts to attract infrastructure investments and direct more investment towards the relatively poorer inland provinces.

So far, China has not revealed the precise nature of any incentives it intends to offer to steer investment in the desired direction, but it looks as though some of them may be negative ones, involving the scrapping or reduction of existing privileges in an attempt to level the playing field.

Many foreign businesses expect Beijing to abolish the tariff exemption on foreign company imports of capital goods and to reduce further the value-added-tax rebate on exports. While exporters could previously claim a rebate at the full 17 per cent rate, this was reduced to 14 per cent in July. It is expected to fall further to 9 per cent in due course.

There is also a lively internal debate

on the role of the five special economic zones in Shenzhen, Zhuhai, Shantou, Xiamen and Hainan Island. Economists such as the influential Mr Hu Angang of the Chinese Academy of Sciences argue that they have played their role in helping get a market economy underway and that an end to their preferential status would help even out regional income disparities.

"Deng Xiaoping's policy of allowing some regions to move ahead was a breakthrough after central planning, but China has changed greatly after 16 years," he says.

Mr Zhen Rongji, executive vice-premier in charge of the economy, says any change to policy towards the special economic zones would be gradual and connected to the broader reform of China's tariffs.

Still, the prospect of such changes might alter the economics of foreign investments and some fear they might deter new entrants. A shortage of trained personnel and transport problems remain an impediment to the opening up of the hinterland - it takes 15 days for the Chengdu Aircraft Industry Corporation to move the nose sections of its aircraft from McDonald Douglas from its Sichuan plant to the port of Shanghai.

Executives from some Japanese companies have said that China appears ambitious in its expectations for upgraded technology. The new guidelines may make them more cautious about investment in China. "The terms

for joint ventures, like investment ratios, export ratios and production items are becoming less favourable to us," Mr Yukio Shotoriki, Matsushita's director for China, told reporters earlier this year.

But evidence of lively overseas interest in China comes from the automotive sector where Ford and General Motors fought a bitter battle for the right to build a \$1bn car assembly plant in a joint venture with Shanghai Automotive Industry Corporation. Similarly tough competition was sparked by an opportunity to build mini-vans in a joint venture with South China Motor Corporation. That DM1.4m deal was won by Daimler-Benz in the summer.

And China itself needs foreign help to develop its infrastructure. With restrictions on foreign borrowing and less central government money available for infrastructure, the richer coastal areas, in particular, may find themselves more dependent on foreign equity involvement in sectors like roads and power.

Already Citic, the government-owned conglomerate, has taken a stake through its publicly listed Hong Kong subsidiary to two bridges and a tunnel under the Huangpu River in Shanghai.

Power sector developments have been beset by arguments over rates of return, but analysts say the authorities now seem more willing to fudge these issues. In this and other sectors, negotiations may be tough, but there will be no shortage of opportunities.

■ **Marketing and advertising: by Richard Tomlinson**

Land of opportunity

For the big agencies, the market's potential outweighs its complexity

Last month, television viewers in the Chinese city of Tianjin were introduced to Largo, a new beer produced by Foster's for the local market. As images of peasants with TV satellite dishes flashed across the screen, the message of the commercial was clear: only Largo drinkers could keep up with the times.

What viewers did not see was the original commercial produced by J. Walter Thompson's Beijing agency for Foster's, which the local Tianjin television station had insisted on cutting. "They didn't like soldiers singing karaoke, street traders selling Mao's little red book, or taxi drivers fighting," says Ms Lam Kwei Chee of J. Walter Thompson, who scripted the advertisement. "They even objected to a woman with her hair dyed blonde."

Ms Lam's experience illustrates one of the difficulties facing multinational agencies. Until this year, the only national guidelines for advertisers were a set of State Council edicts issued in the mid-1980s, when foreign agencies were first allowed to set up joint ventures in China.

Last February, the introduction of a new comprehensive advertising law was supposed to bring order to the chaos. Yet so far, it has only spread more confusion.

By far the biggest problem facing international agencies in China is buying spots. "They are high," adds Mr Tomlinson. "You have a high number of media vendors selling a limited number of spots."

All TV spots must be paid for in full

in advance, but this does not guarantee they will actually run.

"It's one thing to book a spot, quite another for the commercial to be broadcast," says Mr Wu of Ogilvy and Mather, whose clients include Pepsi Cola, Unilever and IBM. Privately, industry sources admit that broadcasters are sometimes offered to Chinese TV executives, to ensure that commercials reach the screen.

In the past, foreign advertisers were further handicapped by the three-tier system of payment for television spots, with joint ventures and overseas agencies charged far more than local advertising shops. The ministry of radio, film and television is committed to ending this system, but the estimated 43,000 local agencies still enjoy competitive advantages over the multinationals.

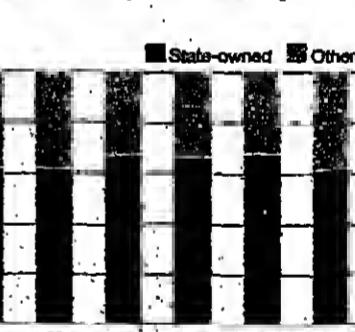
"The overhead costs for local agencies are far less than ours," says Mr Michael Lew, China business director for Dentsu, Young and Rubicam (DYR), whose joint venture partner is the China International Advertising Corporation.

A particular irritant for DYR has been the loss of local staff. "For a while in China, we thought we were doing a decent job training local people," says Mr Lew. "But increasingly we have seen them job-hop, or go off to set up their own businesses."

To maintain continuity, DYR now employs more expatriates who, unlike local staff, must be paid internationally

weighted salaries. Yet Mr Lew is not alone in seeing "a chink of light" for multinationals in China. While big profits remain elusive, the total value of billings has soared, reflecting the rapid growth of the market.

This year, J. Walter Thompson predicts its total China billings will reach about \$55m, more than double the figure for 1994. Ogilvy and Mather, in line with other big agencies, is forecasting 40 per cent growth for 1995.

Fixed asset investment by ownership

employ 107m workers, nearly a fifth of the officially measured labour force. Officially measured labour force, which makes it difficult for the state to assume the welfare burden also makes it hard to provide the funds SOEs need to grow. Even if the economic inefficiency were tolerable, the government could hardly provide the capital, offer the subsidies or bear the bad debts.

The Chinese government makes this a stiff challenge. One approach might be to transfer assets of SOEs directly into new pension funds, but this, let alone more radical privatisation, remains ideological anathema to many.

Yet the shortage of revenue that makes it difficult for the state to assume the welfare burden also makes it hard to provide the funds SOEs need to grow. Even if the economic inefficiency were tolerable, the government could hardly provide the capital, offer the subsidies or bear the bad debts. Further reform is inescapable, not least because of the central economic role many SOEs still play. It will come hesitantly. But come it must.

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■ Banking: by Peter Montagnon

Bad debts curb modernisation drive

Cultural changes are needed to make the sector truly commercial

With the passage of China's new banking law this summer the process of turning its big banks into proper commercial institutions is under way with a vengeance.

The law underpins reforms that have already seen the banks relieved of their role of so-called policy lending, whereby their credit programmes were little more than an extension of the government budget. Under the new structure, which policy lending is in the hands of three new institutions: the Agriculture Development Bank; Import and Export Credit Bank; and the State Development Bank.

That has given a new freedom to the four main commercial banks - People's Construction Bank, Agricultural Bank, Industrial and Commercial Bank and Bank of China - which control the bulk of the country's banking assets.

In theory the banks are supposed to make independent lending decisions based on proper credit assessment but

the change of culture will have to be radical before China can boast a lively, competitive and efficient banking sector. Most expect the process to be long and arduous and some fear the programme of reform could come to a grinding halt under the weight of bad debts in China's financial system.

"We must make our bank a real bank, not a department of government," says Mr Wang Xuebing, president of the Bank of China. "That means not only the transformation of the structure, but also of the management."

An essential part of the process is the need for head office to get a grip on the activities of branches that were virtual local fiefdoms under the old system and heavily subject to local political influence. The central bank has helped by making liquidity available to the system through head office, forcing senior management to try to centralise the functions of resource allocation and risk management.

The banks are also setting up new systems to analyse credit and monitor approvals. "We think that will increase quality and reduce risk," says Boao of China's Mr Wang.

To help in the process they

are engaged in an intensive programme of computerisation. Bank of China is currently spending \$200m a year on information technology. The People's Construction Bank says it has so far spent Yul5bn.

In practice, however, commercialisation remains a struggle. Mr Wang Qishan, president of the People's Construction Bank, says it has been difficult to persuade local branches to part with surplus liquidity even though head office credits them with interest on any funds they release.

Most analysts agree that the reform of banking systems will not work without parallel reform of state enterprises. Only then will banks be able to make judgements based on commercial risk and take an objective view of the quality of their loan portfolios.

Mr Cao Siyuan, a consultant on bankruptcy, argues that a few bankruptcies are needed to concentrate minds in both banking and industry. At present bankers are reluctant to admit to problem loans, he says.

The authorities may regard them as delinquent or corrupt, so they would rather cover it up. That's the biggest obstacle

impeding financial reform." By far the largest problem for bank management is the stock of bad loans that the banks were previously forced to extend to ailing state enterprises. Some fear a serious financial crisis as the extent of bad loans becomes clear and banks are forced to take losses in excess of their capital.

This worry has been reflected in two verdicts by

said he was shocked by the ratings, arguing that Moody's had misunderstood the situation. The central bank would stand behind the commercial banks since they were state owned. It had the resources to do so, he said.

Besides, he added, market estimates of problem loans were exaggerated. Less than 2 per cent of advances by the four main commercial banks

the banks build up reserves to deal with problem loans and they were expected to make provisions out of their own profits so that within three to five years the situation should have improved.

It remains to be seen how many overdue loans will be repaid but the authorities clearly believe they can spread the problem out in such a way as to avoid shock to the system. Outside analysts agree that this should be possible. But it is touch and go, says Mr Rajiv Lall, a former World Bank economist who is now head of regional economic research at Morgan Stanley in Hong Kong.

Chinese commercial banks are not short of capital: they receive 30 per cent of their liabilities from the central bank, a cushion that is effectively equity. They can thus afford to make large write-offs, he says, as long as the pace is slower than that at which the central bank gradually withdraws its funding as part of the commercialisation process.

The next two or three years will be crucial, he adds. The authorities have to encourage some, but not too many, state-owned enterprises to go into liquidation.

■ Citic: by Tony Walker

Man with a bold mission

The new chairman of one of the country's leading organisations faces a tough challenge

Mr Wang Jun, the newly appointed chairman of the China International Trust and Investment Corporation (Citic), is clearly a man with a mission: to streamline an organisation that had grown too quickly and haphazardly.

Appointed to head Citic earlier this year after the company's Shanghai branch had lost some \$40m in futures trading on the London Metals Exchange, Mr Wang makes no secret of the brief handed to him by the State Council, or cabinet, which was responsible for his appointment.

The current task is very important to Citic and that is to establish an effective supervisory system, he says. "After the losses in Shanghai we've made tremendous efforts to strengthen internal controls."

The new management was focusing its efforts in two significant areas. These involved

imposing stricter discipline on the company's 30 subsidiaries at home and abroad, and at the same time beginning to divest Citic of some of the enterprises that in Mr Wang's words were "not well run and were not large enough".

Mr Wang also indicated that Citic, which was formed in 1979 as a conduit for foreign investment in China, would move more strongly into financial services, including banking, securities trading and fund management. He expects this to form the basic thrust of Citic's mainland activities in the next period.

The 54-year-old Mr Wang and his team would seem, judging by Citic's high debt levels and the problem enterprises on its books, to face a fairly severe test. Moreover, Citic's reputation as one of China's premier organisations has been tarnished, and some good housekeeping would appear to be in order to restore it.

Mr Wang himself cannot escape some responsibility for the organisation's problems. He has been involved since

Continued on next page

Regulators try to tame primitive beast

Those overseeing securities face a difficult task: how to allow the markets to develop while curbing speculative excess

Securities regulators have always faced a balancing act between their duty to ensure safety and a natural desire to promote their market. In China the task is exceptionally hard.

While the country's fast-growing economy has sparked an almost insatiable demand for capital, China's capital markets remain primitive. There is still no overarching securities law. Lacking institutional investors, the markets are prey to retail speculative excess.

This problem was driven home in February with a scandal that eventually forced the authorities to close

the bond futures market. Two Shanghai brokers were forced into huge selling of bond futures to cover positions in excess of permitted limits. In eight minutes of trading paper with an underlying value of \$37m changed hands.

The authorities intervened and cancelled the trades. An official report in September said lax regulation was partly to blame, and the expansionist-minded president of the Shanghai stock exchange was replaced in a move interpreted by the financial community as a sign that Beijing wanted tighter control.

Such a view permeates the remarks of Mr Li Jiang, vice-chairman of the China Securities Regulatory Commission (CSRC) as he assesses current regulatory issues. Mr Li is one of the sharp-minded younger officials now being promoted to senior positions in

Beijing to help keep central control of economic reform.

China needs futures, he says, to help markets set prices and help business to avoid risk, but futures should develop gradually. The underlying markets are not ready. There are still state controls on prices, so trading is dominated by speculation. Many of those that engage in it are state-owned enterprises, which keep any profits arising but charge the government for their losses.

Bond futures present special problems because there are still too few issues in the cash market and they are indexed to inflation, which is erratic and unpredictable. After February's crisis the CSRC wanted to keep the futures market open and tried to curb activity by increasing margin requirements, but flows of "hot money" eventually forced its clo-

sure. Reopening will have to wait until the cash market is larger.

Mr Li adds that a 13th draft of the law will soon be presented to the National People's Congress. Delay in passing the law had been caused by disagreement over the division of responsibilities between different authorities involved in the markets. The CSRC believes there should be one central regulator. "In fact some of the early problems had been partly to do with the division of powers," says Mr Li.

According to Mr Li, China does not need a plethora of markets. Shenzhen is already losing ground compared with Shanghai, but the country does need two centres to provide competition and both are now well developed in terms of computerisation.

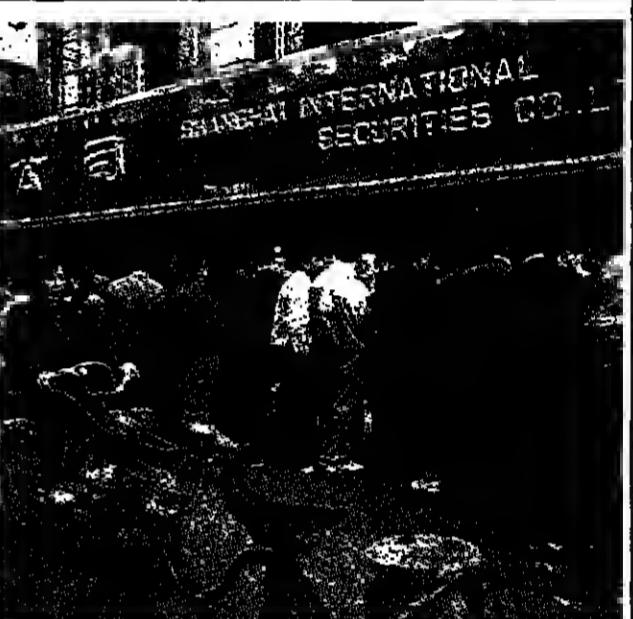
Mr Li says the authorities will not open the domestic bond market to

foreigners before the yuan becomes convertible, probably by the end of this decade, but a separate market for foreigners to trade yuan bonds might be set up in Hong Kong after 1997.

Control will also be maintained over the flow of new equity issues, though the Yn5.5bn limit for the current issues might be rolled forward. The CSRC was concerned at the market purchase by two Japanese companies of a majority stake in Beijing Light Bus Company, and at the purchase by Ford of a 20 per cent stake in the Jiangling truck manufacturer.

In principle the CSRC does not object to the practice, but there is a need to co-ordinate such moves with others who have a say in evaluating and transferring assets. Otherwise there could be chaos.

Peter Montagnon



One of the brokers blamed for the futures crisis

Sarah Murray

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6 CHINA

■ Sichuan: by Peter Montagnon

A tricky balancing act

While the region provides a good living for some, surplus labour is a growing problem

As things go for Chinese farmers, Mr Zhou Shubing has it good. From his smallholding in Juyuan township west of Chengdu in Sichuan province, he and his three sons manage to make enough money to support 11 people.

A washing machine which graces the living room is evidence of their relative affluence. Under the gaze of stylized portraits of Mao Zedong and Zhou Enlai, the machine takes pride of place alongside a colour television set.

No doubt their success is partly due to the efforts of Mrs Zhou, a powerful woman in her early fifties and a former local communist party secretary. She has organised the family along strict lines of responsibility.

Of her three sons, the eldest Zhou Degang, 31, runs the shrubbery business. Of his two younger brothers, one takes charge of the chicken rearing and the other of a small distillery.

Thus the family earns Yn80,000 a year from a farm that is little more than a hectare in size. But apart from what they need in order to feed themselves and to supply the distillery, the Zhou's grow no additional grain.

They may be successful farmers, but the Zhou's are also part of China's agricultural problem. With a population of 1.2bn to feed, the country badly needs to maintain its grain production. Yet with grain cultivation unrewarding financially, rural incomes are hard to maintain without diversification.

The Zhou's started up their shrubbery business 10 years ago, growing bonsai trees and other ornamental plants.

For the past three years the business has been run by Zhou junior. It would be hard for anyone to persuade him to change jobs. The shrubbery business is a lucrative one. It generates more than five times the return than can be generated by grain. And it provides



The Zhou family: their diversification into shrubbery is profitable but at odds with government wishes

Zhou junior with an income that is sufficiently large to deter him from seeking his fortune in one of China's surplus labour.

Squeezed on to a tiny plot of land between the river and the power station reservoir, the factories are a ramshackle collection of operations, bereft of capital investment, and where most of the workers seem to have little to do.

One factory is a small smelter for scrap steel, another is a foundry that recycles lead from printing plants. At another a dozen women pick threads from plastic sacks for recycling. Altogether 230 people work in them, earning between 200 and 300 yuan a month.

For the village, the factories mean more revenues. For Mr Lin they are a means of dealing with the problem of surplus labour. Of Juyuan's total population of 30,000, he says about 3,000 count as surplus labour, which means they have no work on the land except at planting and harvest times.

The provincial authorities are faced by the same problem, but on a much larger scale. Sichuan province has a popu-

lation of 110m, greater than that of any other Chinese province, but about 90m of its residents live in rural areas where surplus labour is concentrated. According to Mr Li Changming of the Sichuan Provincial Planning Commission, the province's biggest challenge is in developing the rural economy.

Sichuan already produces 10 per cent of China's grain and is the largest pig producer, says Mr Li, and the government aims to boost output further by giving farmers better know-how and increased access to irrigation - the province has several water projects under way.

Nevertheless, alternative employment must be provided. As part of the next five-year plan, Sichuan plans to build and renovate 300 small towns. The provincial authorities want to encourage small and medium-sized enterprises and are concerned not to waste good arable land.

Some surplus labour will inevitably drift away to the richer coastal regions, says Mr Li. Getting the balance right for the remainder, however, is an awesome task.

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■ Wuhan: by Martin Wolf

Infrastructure aids 'Chicago'

New investment and new people make the city one of the country's most dynamic

Wuhan, a city of 7m and capital of the province of Hubei, is known as China's Chicago. Its weather, hot in summer and cold in winter, is one explanation, but the more important one is its location. A large inland port on the Yangtze, Wuhan is the hub of China's rail and road communications.

At a radius of roughly 1,100km lie Beijing to the north, Shanghai to the east and Guangzhou to the south. A circle centred on Wuhan, with a radius of 500km, would contain close to 40m people.

In the 1980s, Wuhan fell behind the economies of China's south and east coast. While it is China's fifth largest city by population, its expected gross product this year, of Yn60.5bn (US\$7.2bn), means it is ranked seventh or eighth, while annual average labour earnings of Yn4,500 place it 12th among China's 17 largest cities.

But dynamism has come to Wuhan. This is clear not only from the statistics: real output grew 15.8 per cent in 1992, 16.8

per cent in 1993, 18.8 per cent in 1994, and in 1995 is expected to increase 15.2 per cent.

It is also evident to the eye: a new airport and bridge across the Yangtze, new development zones, and construction everywhere.

Policy, proximity, skilled people and relatively poor help explain the migration of economic activity to Wuhan: policy, because in 1992, the central government made a decision to grant Wuhan the same incentives as those available to the coast's open cities.

As part of the next five-year plan, Sichuan plans to build and renovate 300 small towns. The provincial authorities want to encourage small and medium-sized enterprises and are concerned not to waste good arable land.

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Regional disparities

1992 figures

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